ANNUAL REPORT 2014

Dar Al-Arkan Real Estate Development Company




دار الأركان
DAR AL-ARKAN

عامرة
BUILT FOR LIFE

Head Office

Riyadh-Al-Ma'ather Road
Kingdom of Saudi Arabia

Tel: +966 11 2061100
+966 11 2069888
Fax: +966 11 2061898
P.O.Box: 105633 Riyadh 11656

Makkah Al-Mukaramah
Southern Al-Aziziah

Tel: +966 12 5564364
Fax: +966 12 5566607

Jeddah
King Fahad Road-Alsiteen Street

Tel: +966 12 6068530
Fax: +966 12 6068730
P.O.Box: 23393 Jeddah 21426

Al Madinah

Tel: +966 14 8640000
Fax: +966 14 8640555

Toll No: 800 123 3333

ir@alarkan.com

www.alarkan.com

بسم الله الرحمن الرحيم

ANNUAL REPORT 2014

Dar Al-Arkan Real Estate Development Company

King
Salman bin Abdulaziz Al Saud

Custodian of The Two Holy Mosques

Crown Prince
Mohammed bin Naif bin Abdulaziz Al Saud

Deputy Premier and Minister of Interior

Deputy Crown Prince
Mohammed bin Salman bin Abdulaziz Al Saud

Second Deputy Prime Minister and Minister of Defense

Members of the Board

Yousef A. Al-Shalash

Chairman

Abdullatif A. Al-Shalash

Managing Director

Hathloul S. Al-Hathloul

Member of the Board

Khalid A. Al-Shalash

Member of the Board

Tariq M. Al-Jarallah

Member of the Board

Majed S. Al-Roumi

Member of the Board

Majed A. Al-Kasem

Member of the Board

Abdulaziz A. Al-Shalash

Member of the Board

Dr. Abdulrehman H. Al-Harkan

Member of the Board

Ahmed M. Al-Dahash

Member of the Board

Eng. Saleh M. Al-Mutairi

Member of the Board

Table of Contents

ANNUAL REPORT 2014

Dar Al-Arkan Real Estate Development Company

General Information

Commercial Name:	Dar Al-Arkan Real Estate Development Company
Legal Status:	Saudi Public Joint Stock Company
Current Capital:	SAR 10,800,000,000
Number of Shares:	1,080,000,000 Share
Value of Share:	SAR 10
Head Office:	Riyadh

Dar Al-Arkan Real Estate Development Company, is a Saudi Joint Stock Company started its business in 1994 under Commercial Registration No. 1010160195 and converted to a joint stock company in 2005 under Ministerial decree number 1021 dated 10/06/1426H, corresponding to 17/07/2005 G. The Company operates solely in the Kingdom of Saudi Arabia and its main activity is real estate development. The Company established a number of companies with limited liability in order to facilitate the achievement of its strategic objectives by diversification of investment portfolio and sources of income instead of relying on limited market sources. The company's business undergoes the following activities:

- Real estate development
- Property and lease management
- Investment activities

Vision and Mission

Our Vision

To further our leadership position as the most respected and dynamic Saudi Arabian real estate solutions provider, developing integrated communities for life in the region.

Our Mission

To create and nurture thriving integrated communities, which fulfill and add value to the social, cultural, recreational, and commercial needs of our communities, maximizing long term financial returns for our investors.

Chairman's Statement

On behalf of the Board of Directors of Dar Al-Arkan Real Estate Development Company, I am pleased to present the Company's annual Board of Directors Report for 2014. The year witnessed significant achievements to a large number of the Company's aspirations and goals.

Yousef Abdullah Al-Shalash
Chairman of the Board of Directors

Despite the challenging international economic environment, the Company reported a robust performance in 2014 retains its leading position in the Saudi real estate sector. This is mainly due to the Company's solid foundation since its formation as well as its forward looking business model that ensures a constant search for new projects and prospects. The Company continues to grow, working hard to achieve its strategic goal of adding new leasing assets to its portfolio and, therefore, diversifying its revenue streams. Furthermore, the Company continued to invest in its property portfolio and is progressing towards its strategic goal of 50% of its income derived from non-traditional elements of real estate development such as selling land, developing plots or selling commercial and residential properties.

Additionally, and as planned, 2014 saw improvements in operational performance as well as increasing leasing revenues driven by high quality property management. The year also experienced steady progress in its development activities; for example the substantial increase in property sales at Shams AlArous, and the continuation of infrastructure development in Shams ArRiyadh.

The Company also improved its corporate structure in terms of administration, finance and technical capabilities to align with its operational activities and projects. Likewise, the Company upgraded its IT plans, policies and processes to comply with operational requirements of improving controls and performance monitoring. In addition, the Company continued to recruit high quality qualified staff to help achieve its aims.

The year ended with a solid performance and a steady growth in its asset base, net equity and improving liquidity. Due to a strong track record in the international capital markets, DAAR was able to complete another sukuk issuance during the year (7th sukuk).

It is important to note that DAAR has prudent financial management, well-distributed debt maturities, strong liquidity, and capability to mitigate its short term financial liabilities. Due to the above, and driven by its leading position in the Saudi real estate market, high-quality assets and strong recurring income portfolio, DAAR received a Ba3 credit rating from Moody's in August 2014.

During 2014, DAAR started a new project called “Juman” in the Eastern Province, which will constitute the first tourist attraction in the Eastern Region by creating an attractive area with a unique lifestyle featuring advanced residential, commercial, health care, educational and recreational areas. The project will, undoubtedly, accelerate progress in the Company’s long history of growth. The project is expected to create economic and social benefits in the Eastern Region, to a high international standard.

In terms of 2015, the Company is aiming to achieve revenue growth of 10%. This is anticipated given the appeal of the Saudi real estate market over the next five years and given the promising investment opportunities in the residential, commercial or hospitality sectors. In addition, there is rapid population growth and continuous supply/demand imbalances in housing, and ongoing structural and legislative reforms.

This favorable market environment could have not come about without the attractive investment environment created by the government of Saudi Arabia, which spares no effort in allowing the private sector to play a pivotal role in realizing the country’s development plans.

Importantly, the Company has faced many challenges during the year. A key challenge is to obtain the necessary permits from the relevant authorities concerned which can take several years in some cases. Delaying permits can delay projects for longer periods of time and can affect the Company’s business performance and strategic plans.

As is customary, I extend my deep gratitude to my colleagues and members of the Board of Directors, the executive management and employees of the Company for their dedicated effort towards implementing the Company’s strategy and working towards achieving its objectives. Their cooperation and effectiveness improved the Company’s position as leader of the real estate sector in Saudi Arabia.

Finally, I would like to thank our shareholders and clients for their confidence and trust. We assure them of our continuous commitment to further improve the Company’s position and maintain growth into 2015 and beyond.

Yousef Abdullah Al-Shalash

Chairman of the Board of Directors

ANNUAL REPORT 2014

Dar Al-Arkan Real Estate Development Company

Board of Directors Report

To Shareholders of

Dar Al-Arkan

Real Estate Development Company

The Board of Directors at Dar Al-Arkan Real Estate Development Company is pleased to submit its report on Company's performance and the results of its activities for the fiscal year 2014.

1 Business Activities

Dar Al-Arkan Real Estate Development Company is a Saudi Joint Stock Company which started its business in 1994 under Commercial Registration No. 1010160195 and converted to a joint stock Company in 2005 under Ministerial decree number 1021 dated 10/06/1426 HD, corresponding to 17/07/2005.

The Company operates solely in the Kingdom of Saudi Arabia and its main activity is real estate development. The Company established a number of limited liability companies in order to facilitate the achievement of its strategic objectives of diversifying the investment portfolio and its income sources.

1.1 The Company's Subsidiaries

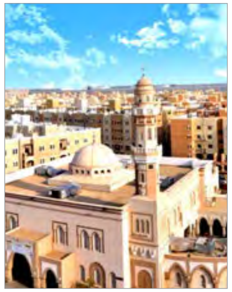
1.1.1 Dar Al-Arkan Projects Company

Dar Al-Arkan Projects Company is a limited liability Company, a wholly owned subsidiary of Dar Al-Arkan Real Estate Development Company with a capital of SR 500,000 fully paid up, registered in Riyadh under the Commercial Registration No. 1010247583, dated 28/3/1429 H (corresponding to 5/4/2008). The Company operates in construction of residential and commercial buildings (construction, maintenance, demolition and restructuring) in the Kingdom of Saudi Arabia.

1.1.2 Dar Al-Arkan Properties Company

Dar Al-Arkan Properties Company is a limited liability Company, a wholly owned subsidiary of Dar Al-Arkan Real Estate Development Company with a capital of SR 500,000 fully paid up, registered in Riyadh under the Commercial Registration No. 1010254063, dated 25/7/1429 H (corresponding to 28/7/2008). The Company operates in development as well as the acquisition of commercial and residential real estates, provision of management, operation and maintenance of residential facilities, commercial buildings and public facilities in the Kingdom of Saudi Arabia.

1.1.3 Dar Al-Arkan Investment Company



Dar Al-Arkan Investment Company is a limited liability Company, a wholly owned subsidiary of Dar Al-Arkan Real Estate Development Company with a capital of SR 500,000 fully paid up, registered in Riyadh under the Commercial Registration No: 1010247585, dated 28/3/1429 H (corresponding to 5/4/2008). The Company operates in real estate procurement, acquisition, leasing and investment in the Kingdom of Saudi Arabia.

1.1.4 Dar Al-Arkan Sukuk Company

Dar Al-Arkan Sukuk Company is a limited liability Company, a wholly owned subsidiary of Dar Al-Arkan Real Estate Development Company with a capital of SR 500,000 fully paid up, registered in Riyadh under the Commercial Registration No: 1010256421, dated 16/9/1429 H (corresponding to 16/9/2008). The Company operates in real estate investment and development in the Kingdom of Saudi Arabia.

1.1.5 Sukuk Al-Arkan Company

Sukuk Al-Arkan Company is a limited liability Company, a wholly owned subsidiary of Dar Al-Arkan Real Estate Development Company with a capital of SR 500,000 fully paid up, registered in Riyadh under the Commercial Registration No: 1010274407, dated 11/10/1430 H (corresponding to 01/10/2009). The Company operates in development, maintenance and management of real estate as well as land procurement and general contracting in the Kingdom of Saudi Arabia.

1.1.6 Thawabit Investment Company

Thawabit Investment Company is a limited liability Company, a wholly owned subsidiary of Dar Al-Arkan Real Estate Development Company with a capital of SR 500,000 fully paid up, registered in Riyadh under the Commercial Registration No: 1010275449, dated 30/10/1430 H (corresponding to 19/10/2009). The Company operates in real estate investment and development in the Kingdom of Saudi Arabia.

1.1.7 Dar Sukuk International Company

Dar Sukuk International Company is a limited liability Company, a wholly owned subsidiary of Dar Al-Arkan Real Estate Development Company with a capital of SR 500,000 fully paid up, registered in Riyadh under the Commercial Registration No: 1010275448, dated 30/10/1430 H (corresponding to 19/10/2009). The Company operates in real estate investment and development in the Kingdom of Saudi Arabia.

1.1.8 Investments in Subsidiary Companies as Defined by the Rules of the Capital Market Authority (“CMA”)

1.1.8.1 Khozam Real Estate Development Company

Khozam Real Estate Development Company (Khozam) is established as a limited liability company between Jeddah Development and Urban Regeneration Company (49%), a Company wholly-owned by Jeddah Municipality, and Dar Al-Arkan (51%). Khozam is registered in Jeddah under Commercial Registration No. 4030193909 dated 25/10/1430H, (corresponding to 14/10/2009). Khozam’s capital amounts to SR 540 million and operates in the Kingdom of Saudi Arabia with headquarters based in Jeddah and undertakes real estate development (development of Qasr Khozam Project).

1.1.8.2 Alkhair Capital

The Company owns a stake of 34% of Alkhair Capital Saudi Arabia (“Alkhair”). Alkhair is licensed by Saudi Arabia’s Capital Market Authority to deal as principal and agent (except for the implementation of marginal deals) undertaking underwriting, management, arrangement and financial advisory services. Alkhair Capital is a closed Joint Stock Company with capital of SR 300 million, registered in Riyadh under commercial registration No. 1010264915 dated 27/3/1430H (corresponding to 24/03/2009). Alkhair’s headquarters are based in Riyadh city and it operates in the Kingdom of Saudi Arabia.

2 Description of Company's Activities and Contribution to Revenues

All of the Company's operations are carried out within the Kingdom of Saudi Arabia. DAAR operates as three distinct divisions, as follows:

2.1 Real Estate Development

The revenue of this division is derived from the sale of land and developed residential and commercial properties to individuals, corporates, investors and developers. During the fiscal year 2014 this division accounted for SR 2,931 million, representing 95.92 % of the Company's total revenues, as compared to SR 2,822 million, or 96.28% in 2013.

2.2 Property Management and Leasing

Property Management and Leasing is DAAR's second largest and fastest growing division. Revenues are derived from rental income from residential and commercial investment properties as well as income earned from the management, operation and maintenance of residential and commercial buildings and public facilities. In 2014, revenues generated in Property Management and Leasing amounted to SR 125 million and represented 4.08% of Group revenues, compared to SR 108 million or 3.68% of total revenues in 2013.

2.3 Investment Activities

Revenues from investment activities represent income generated by strategic investment in companies, which the Company's management believes is complementary to Dar Al-Arkan's real estate development activities. During 2014, such investment activities were not significant to the Company's net profits as their contribution to the profit and loss accounted for 2.78% of DAAR's net profit.

Moreover, the Company earned other non-operating revenues amounting to SR 47 million representing 8.2% of net income in 2014 compared to SR 39 million (5.8% of net income) in 2013 resulting from profits from Islamic deposits.

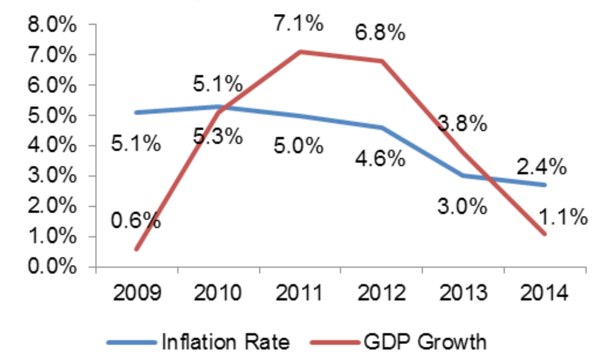
3 Saudi Real Estate Sector Overview

3.1 The Saudi Economy

2014 was a record setting for government spending (Actual budget expenditure was SR 1,100 billion). Although towards the end of 2014 the international price of oil dropped due to increased supply and slowing world economy, Saudi Arabia maintains a very strong financial position with significant reserves and a great balance sheet financial flexibility. This enabled the government to maintain its fiscal expansionary policy for the eighth consecutive year since 2008. Announced estimated 2015 government spending budget of SR 860 billion demonstrates the government commitment to continue support the local economy and protect it from oil price fluctuation.

Government spending plans continues to center on developing projects in education, health and housing sectors as well as security, social and municipal services, water and sewage, roads and technology, support of scientific research and fostering investment opportunities. The expansionary fiscal policies of the Kingdom are expected to further support a prosperous national economy in the coming years, visible in all economic sectors, especially the consumer related.

The Saudi Economic Profile



Description	2014	2013
Nominal GDP (SR billion)	**2,821.7**	**2,794**
Real GDP (growth %)	**1.09%**	**3.8%**
Inflation	**2.4%**	**3.0%**
Per capita income (SR)	**91,703**	**93,177**

Source: central department of statistics and information, SAMA

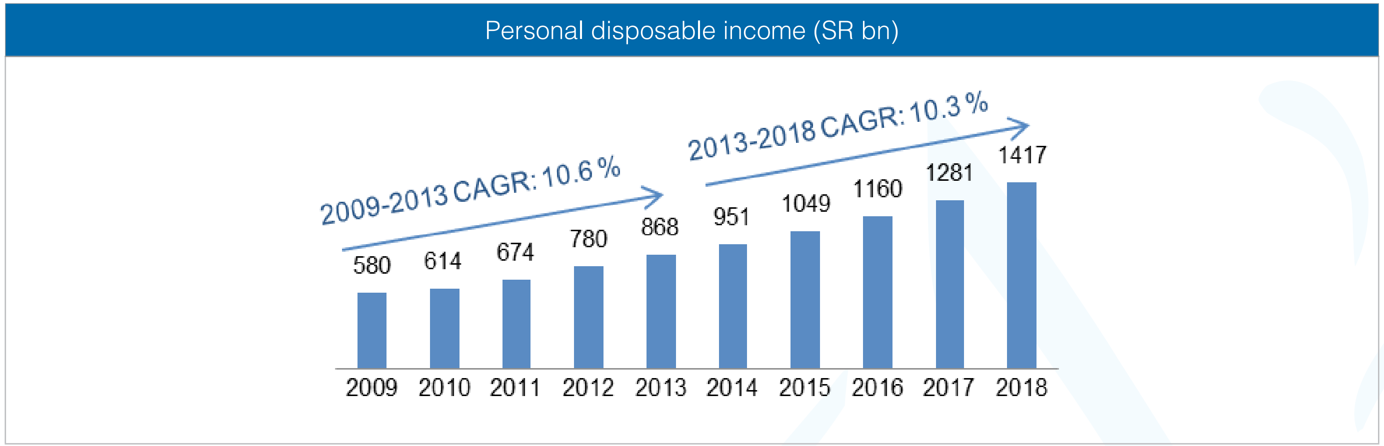
3.2 Current Position of the Saudi Real Estate Market

The Saudi real estate market is driven by:

- A healthy economy that is diversifying away from oil
- Family income increasing at a faster pace than inflation
- Government policies
- Fast growing population
- Age distribution whereas 50% of Saudis is below 25 years old
- Urbanization
- Reduction of the average household size
- Evolving financing structures for homebuyers and developers
- Demand trends favoring more apartments living over villas
- Land costs

Although towards the end of 2014 the international price of oil dropped due to increased supply and slowing world economy, the Kingdom keeps a decisive influence on the world's energy supply and the government has expressed confidence that these temporary price fluctuations will not jeopardize its revenue base (financial position).

Strong growth in the disposable income complemented with Government financing initiatives such as facilities extended by the Real Estate Development Fund ('REDF') are a key catalyst to the demand for housing.



(Source: Economist Intelligence Unit, SAMA)

Saudi population is young. About 51% are under the age of 25 (as of Feb 2012) 70% of the population under the age of 35 and 32% is under the age of 15. According to a 2013 report by the International Monetary Fund, up to 1.6 million young nationals of the Gulf countries (Saudi Arabia, Bahrain, Oman, Kuwait, Qatar and the United Arab Emirates) will enter the workforce from 2013 to 2018. The young to adult age group, accounting for the largest portion of the population at nearly 15.2 million will constitute the target demographic segment that seeks home purchasing. Moreover, it is estimated that the population growth rate to remain constant at 2.6% as a larger segment of the Saudi population enters the marriageable age.

The housing market will be further fueled by a change in cultural norms has caused a drop in the average household size. AlAhli Bank in its report “Saudi Housing Sector Overview” estimates that by 2020 the average household size will be 5.28 persons as more “nuclear” family types are included in the household as opposed to “extended family” arrangements as it was more traditional in the Kingdom.

As reported by Property Wire in November 2014, Riyadh accounted for an average of 27% of all residential and commercial permits issued across the Kingdom between 2003 and 2013. Moreover, the number of permits issued in the capital rose by 319% over the 10 year period, outperforming Saudi Arabia as a whole, which experienced a 215% increase. The report points out that despite rising development activity demand for residential units continues to outstrip supply in Riyadh. Indeed, the capital has a requirement for around 50,000 housing units per annum over the next five years and has an estimated housing inventory of just 1.15 million units.

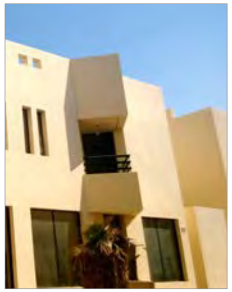
The Ministry of Housing in a recent study has estimated that 300,000 units per year are needed across the Kingdom to keep up with this increased demand.

At the forefront of the Government strategies to boost the housing sector are the following:

Firstly, the Custodian of the Two Holy Mosques King Abdullah bin Abdulaziz has established the Ministry of Housing and allocated SR 250 billion of the 2011 budget surplus to building 500,000 housing units, with the Ministry responsible for development and distribution. This program is under construction through a scheme whereas the infrastructure is built under contract with Ministry on government owned lands, but private developers are invited to participate in the vertical construction.

Secondly, the Real Estate Development Fund (REDF) grants interest-free loans to promote ownership and construction of housing units. The Real Estate Development Fund was established in 1974 and since then it has granted 443,842 private loans as well as 2,488 investment loans with a total value of SR 120,144 Million resulting in the construction of 555,860 residences, according to information facilitated by the Ministry of Housing.

Thirdly, developing the real estate legislative environment will provide an appropriate mechanism to encourage investment in the real estate industry. The approval of the mortgage system in mid-2012 is considered to be one of the most significant structural and legislative reforms, bringing about a quantum leap in the Saudi real estate legislative environment. In 2013, the Saudi Arabian Monetary Agency (SAMA) issued regulations for three of the five mortgage laws, which are the Real Estate Financing Law, the Financial Lease Law, and the Supervision of Finance Companies Law. With positive steps towards the application of these regulations, by the end of 2014, SAMA had



awarded 37 licenses to Saudi banks and financing companies to practice real estate financing according to the new laws. Furthermore, 14 licenses applications are under process by SAMA. The impact of the implementation of these mortgage laws will be commented upon later in this report.

The factors mentioned above will help the sector to see investment in economies of scale and intensive production by utilizing funding flow, from both internal and external sources into the real estate sector. The mentioned factors will also attract foreign investment as well as state support in terms of genuine partnership between financiers, developers and state institutions in order to implement large and integrated real estate projects. Such real estate projects will produce real estate assets characterized by multiple socio-economic and environmental benefits that enhance the sector's ability to meet market needs and stabilize demand and supply forces.

3.3 Update on Mortgage Legislation and its Anticipated Impact

A significant development occurred in the real estate market in 2012 with enactment of five mortgage laws consisting of: (1) the Real Estate Financing Law, (2) the Supervision of Finance Companies Law, (3) the Financial Leasing Law, (4) the Registered Real Estate Mortgage Law, and (5) the Execution Law. During 2013, SAMA published regulations for the implementation of the first three laws. The regulations in respect of The Execution Law and the Registered Real Estate Mortgage Laws have yet to be published. By the end of 2014, SAMA had awarded 37 licenses to Saudi banks and financing companies to practice real estate financing according to the new laws. Further licenses applications are under process by SAMA.

The new mortgage system is expected to bring about a significant improvement in the real estate sector by helping to balance the supply and demand of housing by promoting competition for the benefit of consumers. These changes are also likely to attract more investment to real estate development. Success in mortgage lending depends on the availability of considerable liquidity in the market together with well monitored, controlled and effective implementation. Research indicates that the mortgage law has the potential to create a mortgage industry equivalent to an annual estimated value of SR 120 billion (USD 32 billion) over the next ten years. This increased liquidity in the market will improve mortgage financing, increasing the availability of home loans and ultimately home ownership.

The Mortgage Law will stimulate the real estate market in general, both through the purchase of developed land or of existing housing units, and through helping numerous potential buyers to own their houses through domestic lending with the added benefit of their rights being protected. If the financial institutions, such as banks, participate in mortgages, the impact of the mortgage law will extend to the broader economy in terms of increasing the revenues of both real estate owners and banks as a result of increased rates of credit sales.

In addition, the Mortgage Law will create considerable inflows of finance to the mortgage sector, which will benefit the Sukuk market. Estimates from the Ernst and Young Global Islamic Banking Excellence Centre expect that global demand for Sukuk will triple by 2017. This boom in demand is mainly attributable to steady growth in the Islamic banking services sector resulting from increasing demand for reliable Islamic Sharia-compliant securities from Islamic financial institutions, fund managers and high net worth individuals. The traditional institutions are also considered key investors of Sukuk products.

According to the National commercial bank estimates, the volume of investment in the housing sector between 2011 and 2020 is anticipated to be SR 1.3 trillion (equivalent to US$345 billion), used in the construction of 2.4 million housing units. This implies numerous opportunities will be available to developers and investors and the volume of expenditure to be undertaken by the government and the private sector to bridge the demand-supply gap. Enactment of the mortgage law, under the prevailing situation of the accelerating growth rate of demand in the housing market, will help the concept of investing in real estate in a way that responds to the requirements of modern life as well as taking into consideration the variables that may occur in future.

The factors mentioned above will help the sector to see investment in economies of scale and intensive production by utilizing funding flow, from both internal and external sources into the real estate sector. The mentioned factors will also attract foreign investment as well as state support in terms of genuine partnership between financiers, developers and state institutions in order to implement large and integrated real estate projects. Such real estate

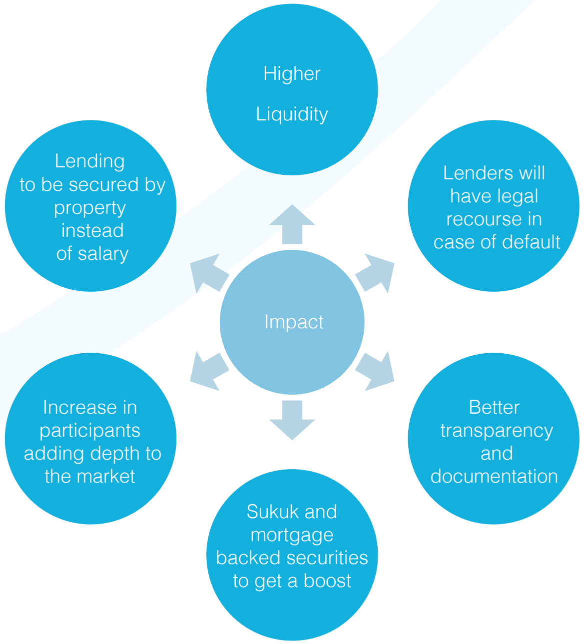
projects will produce real estate assets characterized by multiple socio-economic and environmental benefits that enhance the sector's ability to meet market needs and stabilise demand and supply forces.

Beneficiaries under New Mortgage Laws

Banks & FI's	Real Estate Developers	Investors	Government	Consumers
▪ Opening up of an entirely new mortgage and securitization market ▪ Development of a long-term Sukuk market ▪ Government support in the form of loans/long-term deposits to avoid funding mismatch ▪ More liquidity through refinancing ▪ Permission to own residential real estate thereby eliminating any middle-men	▪ More transparency and documentation ▪ New lending requirements will envisage standardization of property features and the construction process ▪ Allow developers to streamline their construction schedules ▪ More cooperation and liquidity from banks means developers can reduce turnaround time for construction	▪ Clarity on the property market as more real estate data is made public ▪ Efficient allocation of funds and generation of maximum returns on investments ▪ Listing of real estate finance companies will ensure better transparency and disclosures ▪ New investment avenues will emerge in the form of mortgage backed securities	▪ Formulate better policies to regulate and develop the sector ▪ Regulatory and enforcement mechanisms will gradually evolve and be comparable to those of the developed markets ▪ Enable the government to eliminate wasteful expenditure on inefficient subsidies and distribution mechanisms	▪ Supply of housing units will increase to satisfy demand ▪ Higher liquidity in the system will lead to faster approval of housing ▪Age group in the range of 30-45 will have a better chance of obtaining finance ▪Those with a salary level of more than SR 25,000 will be able to afford high-end accommodation (e.g. Villas)

Source: AlRajhi Capital, Market Research

Likely impact of the new mortgage laws



4 Company's Business Model

The Company pursues a flexible business model aimed at maximizing the growth of the Company's assets and profits. Therefore, the Company invests sizeable capital in any project which proves to be financially viable and technically feasible, to maximize value. To this end, the Company focuses on purchasing undeveloped land in big urban centres, where purchasing power is higher, and achieving an increase of value at each development stage. The development process goes through a series of well-defined steps which ensures the maximization of value-added at each stage as follows:

Development stage		Input	output
1	Sourcing land	▪ Criteria of land selection and investigating legal ownership of land ▪ Purchasing of land ▪ Investment in land ▪ Land investment proposal with feasibility study	A legally owned asset with development potential through a feasibility investment proposal
2	Project planning	▪ Organisation of the project ▪ Setting out the strategy and procedures of project implementation ▪ Establishing the strategy and procedures of project management ▪ Allocation of resources	An integrated project structure underlying allocation of resources and an effective plan of action
3	Site development	▪ Designing and planning; ▪ Obtaining the required permissions; ▪ Earth work and landscaping ▪ Excavations and backfilling ▪ Land phasing	Semi-developed land plots
4	Development of Infrastructure	▪ Materials and technology ▪ Road and sidewalk pavement ▪ Plantation ▪ Setting of different service networks	Fully developed lots
5	Development of superstructure	▪ Designing ▪ Construction plan ▪ Materials and technology ▪ Commissioning and correction of potential defects	Semi-finished Residential unit
6	Finishing and decoration	▪ Shaping and covering of housing and residential utilities ▪ Ceramic, mechanical and electrical works ▪ Woodwork ▪ Plaster and painting work ▪ Internal and external decoration work	Completed residential/commercial unit ready for sale or lease
7	After-sales services	▪ One-year free maintenance ▪ Ten-year construction warranty ▪ Providing customers with plans of the residential units specifying all building components to facilitate preventive and corrective maintenance when required ▪ Carrying out periodical field surveys to ensure customer satisfaction	Residential or commercial unit with guaranteed quality

The Company employs different strategies depending on the project and is subject to market conditions and investment viability which in turn depends on socio-economic, commercial and financial factors. The Company's focus is to enhance its revenues through three business streams which are: the development and sale of land, the development and sale of residential and commercial units and establishment of investment properties for leasing. The Company's vision is to be the leading provider of real estate solutions by demonstrating the ability to pursue different approaches for different projects. In some projects it develops land and constructs a small number of houses and sells them to individuals. Alternatively it sells developed or semi-developed land to companies, investors and small developers, leading to complete development of a project, as well as growing other real estate investments alongside the project. Similarly, the Company may pursue comprehensive urban development and then sell housing units to individuals retaining some residential and commercial properties in its investment portfolio for leasing purposes.

In conclusion, the Company's competitive advantage is centred on large master planned communities where value is created through phases of horizontal and vertical development as follows:

Horizontal Development

Infrastructure Development

- Targeting desirable projects or controlling land through management agreements.
- Preparing development plans using precise, bespoke designs and obtaining regulatory approval as necessary.
- Building key infrastructure.
- Seeking strategic alliances with third party developers that will collaborate to maximise value.
- Selling land to third party developers, investors and consumer.

Vertical Development

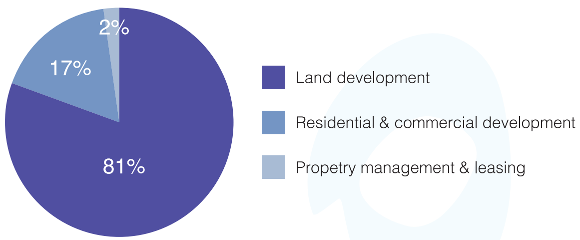
Superstructure/Building Development

- Developing and building anchor projects that not only bring in direct revenue, but also have the greatest impact on the value of the surrounding community
- Anchor projects directly developed by DAAR may be a) “for sale” projects that help inject cash used to minimize exposure (residential units) or b) operating assets (commercial and for-lease residential areas) that once completed are transferred to the Leasing division for commercial operation.

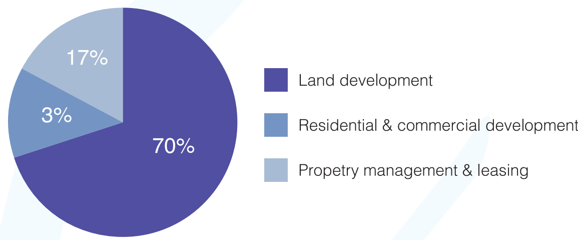
5 The Strategy

Diversification Strategy

2007 - Asset mix



2014 - Asset mix



Dar Al-Arkan remains true to its strategic focus of developing master planned communities, homes, shopping and business centers for the fast growing Saudi Arabian middle-income consumer segment.

Focusing on our core competence in developing master planned communities has enabled us to build a successful business with excellent operational performance, a strong financial position and a well-recognized reputation in the Saudi market.

Development of large scale master-planned communities creates growth opportunities for our three business streams namely the sale of land and residential projects, property management and leasing and investment in real estate related businesses.

Our goal is to reduce risk and volatility, improve profitability and earnings quality by continuing to diversify sources of revenue. We will generate income from our business streams by reducing the share of land development, significantly increase investment towards recurring income assets while capitalizing on the opportunity to build more residential and commercial units from the Company's development plans.

Residential and Commercial Development is the Corner Stone of our Growth

Our aim is to leverage development opportunities created from our master-planned communities and to build the highest quality residential and commercial assets for sale.

Our target is also to increase the number of units for sale or for lease from our current master-planned developments in Shams ArRiyadh and Shams Alarous and open new development projects in the short term from current extensive land assets we own. In line with our strategic goal DAAR has introduced a new master planned development project named as "Juman" in Dammam for 8.2 mn sqm. Juman development will enable DAAR to develop premium water front city infrastructure with residential to commercial land and properties for sale and lease in coming years.

We will also continue to look for new opportunities to develop master planned communities in tier 1 cities in Kingdom.

Growing Property Management and Leasing

We have set a goal to significantly grow our lease asset base in the medium term to reduce income volatility and improve profitability.

Our current managed lease portfolio increased during 2014 with SR 885 million to SR 3.6 billion and includes one of the largest malls in Riyadh and residential and commercial assets in Riyadh, Mecca and Medina. Acquisition of 1349 residential units in Riyadh and Medina was in line with our diversification strategy and will enable us to serve better our corporate and government tenants in Al Qasr and in Al Tilal going forward. We will continue to leverage our core master-planned communities to develop residential and commercial leased assets from Shams Alarous and a residential compound in Shams ArRiyadh and actively seek to add to our asset portfolio performing residential or commercial lease assets that meet our investment criteria.

Strategic Real Estate Investments Supporting our Business Model

The Company undertakes other strategic investments in activities that complement real estate development. Management will continue to make investments, providing they are relevant and over time will enhance shareholder value.

Conservative funding strategy

The Company has successfully diversified its sources of funding and improved its maturity profile to support its business model and reduce liquidity risks. DAAR will continue to pursue further diversification to support strategic changes in our business. Going forward, project and lease asset based funding will grow proportionally with our revenue diversification strategy resulting in longer loan maturities and lower cost of funding.

DAAR's relationship with the International Sukuk market goes back to 2007 and is fully committed to maintain this relationship going forward. This includes diversifying into other local Sukuk markets.

DAAR is moderately leveraged and plans to remain conservative and improve current multiple levels.

During the year Moody's Investor Services assigned a Ba3 corporate family rating for DAAR thanks to its strong position in real estate segment in Kingdom, liquidity management and conservative financial management.

Currently DAAR enjoys a B+ rating from S&P and an AA3/P1 credit rating from RAM.

Management is committed to maintaining the relationships with credit agencies and takes every possible step to drive performance for further upgrades.

6 Residential and Commercial Development

6.1 DAAR is the First in Saudi Real Estate and Construction Sector on Forbes ME List of the Top 500 Companies in the Arab Countries 2014

Dar Al-Arkan Real Estate Development Company (DAAR) is ranked number one in the real estate and construction sector in Kingdom of Saudi Arabia, and fifth place in the Arab world in the same sector on the list of the Top 500 Companies in the Arab world issued recently by "Forbes Middle East".

Forbes Middle East list followed an in-depth study of more than 500 Arab companies listed on the stock exchanges of 11 Arab countries, focusing on the disclosed annual financial information in 2013and collected from stock exchanges around the Arab region. The list was prepared upon the following criteria: total revenue, net profit, total assets, and market value; as well as using financial performance from Dec. 2012 as a reference point.

6.2 Juman Project

The project is located in the Eastern Province overlooking Tarout Bay. It is based on the reclamation of 8.2 Million sqm of semi submerged land, based on an agreement dated 22/04/2014 with the owners. Under the terms of this agreement, Dar Al Arkan is the development manager of this project and acquired an 18% stake on the land. The project will be a master planned community with diverse land uses, including 3,385,770 sqm for Residential use, 251,930 sqm for hospitality, 114,400 sqm for mixed use (retail and residential), 656,870 sqm for retail including a regional mall and 666,330 sqm for office, medical, educational and other uses.

During 2014 an internal Market & Feasibility Study was completed. The Master Plan was developed at a pre concept level, including various alternatives. A third party Market & Feasibility Study for all components was also commissioned and completed to validate the strategy. Some field studies were undertaken (survey and bathymetry), but were hampered by difficulties in the approval process of those works. Intense follow up is still on going as this process is a good trial run for the future approval process. Conversations were held with various authorities including MoMRA and Damam Amana to introduce the project and seek their feedback and guidance. A design firm was procured among internationally recognized names with deep experience in similar projects and with the active participation from various high profile firms.

6.3 Shams ArRiyadh Project

Located in the north-west of Riyadh, in the Al-Dariyia district, the Company is developing the Shams ArRiyadh project, DAAR's second Master-Planned Community project. Shams Ar-Riyadh is one of the largest residential development projects ever initiated in the Kingdom by size, comprising a total area of approximately five million square meters. Shams Ar-Riyadh targets the middle to upper bracket of the middle-income market segment.

The project's notable features include higher land which gives charming views over the natural valley of Wadi Hanifa, with wide roads and pedestrian sidewalks. There is space designated for different sporting, social and cultural activities, and other public amenities and facilities. The project will be equipped with a multi service digital structure making it a 'smart' residential community.

During 2014 conversations with the Ministry of Foreign Affairs launched the concept of the "Diplomatic Village" within Sham Ar Riyadh. A market and feasibility study was undertaken based on a survey of all MoFA staff. Based on the conclusions of this study, the product mix was modified and design adaptations were made.

A Study was also completed during 2014 for the construction of a Gated Compound targeting the Expat community. Various design alternatives were prepared and the master plan modified accordingly. A JV agreement was finalized with Dar Al Bayan for Real Estate Development with 87% participation by DAAR. The joint efforts for the design and construction of this component are ongoing.

During 2014 focus was on the Urban Center of Shams Ar Riyadh, which is to be positioned as the Northwestern Gate of the Kingdom's Capital, taking advantage of ADA's plans of creating alternative urban centers around the city. During 2014 a Strategy was developed for this component of Shams Ar Riyadh and a Market & Feasibility Study was commissioned to validate the direction. The design of this component has been further developing to include retail, hospitality, healthcare, mixed use residential and commercial as well as a Convention Center, an Iconic Tower and a Creative and Media Hub. Conversations are ongoing with anchor tenants and investors to insure the long term viability of the scheme.

By the end of 2014, the project's infrastructure was approximately 47% complete. The finished infrastructure works include grading works, development of the project's frontage and entrance, and construction of a bridge passing over the natural valley linking commercial and residential areas. The construction of two electrical power substations (No.'s 8105 and 8107) have been completed and handed over to the Saudi Electricity Company. In addition high voltage 132 Kv electricity cables have been installed. In respect of the water services, the Company has delivered the project's water requirements to the National Water Company, which started during 2011 by extending main water pipes and constructing the main water reservoir for the area.

During 2012 and 2013 about 2.6 million square meters of project land area was sold to Saudi Basic Industries Corporation (SABIC) and other customers. This sub developer has started construction during 2014.

Shams Al-Riyadh by Numbers*	
Detail	Number
Total project's remaining area	2.4 million (sqm)
No of Residential units to be leased	1,160 unit
No of Residential units to be sold	325 unit
Commercial land to be sold	489,000 (sqm)
Percentage of completed Infrastructure **	47%

*Based on current development plan. ** Excluding land cost.

6.4 Shams Al-Arous Project

Shams Alarous is the Company's third Master-Planned Community project and is located approximately 12 kilometres east of downtown Jeddah on the extension of Palestine Road, one of the main roads in Jeddah, covering an area of approximately three million square metres of fully developed land.

The project was linked with Palestine road, a prominent commercial street in Jeddah, with a 52 metre wide and four km long road with five lanes in each direction, three main lanes and two service lanes. The road extension was inaugurated in 2011. Connecting the project to Palestine Road led to subsequent growth in the project area, and has consequently led to significant value appreciation for the project land. In addition the 100% increase of floor to area ratio further supported the demand for real estate in the area. In 2012 and 2013, the Company sold some developed residential plots in the project.

During 2014 land sales progressed in Jeddah's Shams Al Arous with more 338,408 sqm sold to sub developers and brokers.

The details of the project are as follows:

Shams Alarous by Numbers*	
Detail	Number
Total project's net remaining Area	938 K (sqm)
Residential area to be sold	770 K (sqm)
No of Residential units to be leased	3,304 unit
Commercial space to be leased	190 K(sqm)
Percentage of completed Infrastructure	100%

*Based on current development plan.

6.5 Al-Tilal Project

The Al-Tilal is located in south west Medina, on Prince Sultan road, one of the main pivotal roads in Medina, within Alharam zone boundaries, 9 km from the Prophet's Holy Mosque and 8 km from Quba Mosque.

The project started with the development of a total land area of 2.2 million square metres into developed plots.

In addition, 499 villas were built that have subsequently been partially sold along with majority of residential & commercial developed land plots.

During 2014, the company had further sold 10,082 sqm of developed plots to retail customers and planning and design of additional product to Al-Tilal development is ongoing.

Below are details of the project in figures:

Al-Tilal by Numbers*	
Detail	Number
Total project's net remaining area (sqm)	438,824 (sqm)
Residential area to be sold (sqm)	439 K (sqm)
Total number of Villas	499
Residential Space GLA (sqm)	87K
Villas for Leasing	279
Commercial space to be leased (sqm)	4,400 (sqm)
Percentage of completed Infrastructure	100%

*Based on current development plan.

6.6 Qasr Khozam Development Project

Khozam Real Estate Development Company "Khozam" was established following an offering that targeted private real estate development companies. Supported by its technical expertise and proven track record, Dar Al-Arkan was selected as development partner from among 37 competing companies in April 2008. Khozam Real-Estate Development Company was established as a limited liability company headquartered in Jeddah and was registered under Commercial Registration No. 4030193909 dated 14/10/2009. Khozam's capital amounts to SR 540 million, of which Jeddah Development and Urban Regeneration Company owns 49% contributed by the provision of 252,040.45 sqm land, valued at SR 264.7 million, while Dar Al-Arkan owns the remaining (51%), with a cash contribution amounting to SR 275.5 million.

The main purpose of the Company is to develop the Qasr Khozam area and surrounding neighbourhoods and is seen as the largest project for treating and developing slum areas in Jeddah.

The initiative enjoyed generous patronage from the Custodian of the Two Holy Mosques King Abdullah bin Abdulaziz, who laid the foundation stone for this ambitious development project.

The project was able to accomplish several goals, particularly:

1. Prepare a master plan for the project, which was approved by the Ministry of Municipal and Rural Affairs by Resolution No. 13069 issued on13/08/2010. The plan was adopted by His Excellency the Mayor of Jeddah, who issued for this purpose the accredited regulatory scheme No. 15 /M/T/U. The technical expertise of Dar Al-Arkan was best demonstrated through the development of the main plan, which earned the Mecca Award of Urban Excellence.

2. Completed the preparation of all documentation for properties to be seized.

3. Completed the evaluation of properties to be seized and obtained the approval of relevant authorities for evaluation statements.

4. Completed a social and economic survey by a specialist company targeting the owners of the properties located in the project area in order to determine the social and economic characteristics of the local population and set a comprehensive study to deal with their relocation mechanism.

5. Carried out technical studies to determine infrastructure needs of the entire project, including roads, electricity, water supply, sanitation, storm water drainage, irrigation, and communication networks.

With respect to the first phase: Eviction, demolition and removal works were completed; measurement and parcelling (Thar'a) decisions were also completed pending the approval of relevant authorities to complete procedures in preparation of an offering to investors.

With respect to the second phase: Completed works include a cadastral survey (a comprehensive land and property survey) and valuation, pursuant to approval of relevant authorities to give evacuation notification to property owners and start demolition works.

7 Property Management and Leasing

7.1 Overview

2014 was another year of progress towards the strategy of growing recurring income. At the end of 2014, revenue from leased assets amounted SAR 125 mn representing 4.1% of total income.

The lease assets under management also experienced significant growth following the SAR 885 million acquisitions of assets in Al Qasr and Al Tilal in Q1 2014.

Managing large scale communities and providing quality, value-for-money services is one of the key elements in positioning the Property Management and Leasing service to take increased share of the Kingdom's growing residential community market.

One of the key drivers of growth and this service positioning has been the increased focus on the corporate and Government segments. With these segments we are experiencing significant demand to lease modern, quality properties in convenient locations. This fits with our ongoing strategy of developing and managing planned communities throughout the Kingdom.

During the year the department has geared up also for growth. New reporting procedures have been implemented for asset performance management and new processes have been introduced for rent reviews, property delivery and handover and asset condition surveys. All of which are intended to streamline the management and leasing functions and increase the productivity and efficiency of the service.

Service efficiency has been enhanced further by structuring the department around the three key functions of Property Management, Lease Management and Facilities Management, together with appropriate KPIs for each function.

7.2 Key Events in Property Management and Leasing

7.2.1 Asset Acquisitions

Driven by strong demand from Government institutions to provide housing for their staff in Riyadh and Madinah, DAAR made a strategic investment by acquiring SR 885 million of lease assets. The acquisition consists of 1,071 apartments and 11 villas in Al Qasr community, and 267 villas in Al Tilal community.

This acquisition allows DAAR to have control over a larger consolidated residential community in a single location. Also this will allow DAAR to achieve economies of scale to its service offering and its portfolio mix this will enable it to better realize its strategy of Business-to-Business leasing to large scale blue chip organizations.

7.2.2 Major Leasing Agreements Concluded in 2014

7.2.2.1 Al Masif

The refurbishment of this 26 villa compound in North Riyadh was completed in April 2014. Shortly after, the entire compound was leased to NESMA under a three year lease.

The speed of leasing, again reflects the high demand for good quality properties for the corporate segment.

7.2.2.2 Al Qasr Community

A number of leases were signed at Al Qasr Community during 2014 with important corporate and Government tenants. It was pleasing to note that many of these leases were to existing tenants, who are expanding their presence in Al Qasr. These leases included an additional 98 apartments to Ritz Carlton Hotel for staff accommodation, an additional 506 apartments leased to the Ministry of Foreign Affairs, 25 apartments leased to Al Hammadi Hospital and 65 offices and 7 shops leased to Riyadh Municipality.





7.2.2.3 Al Qasr Mall

In June, the Al Qasr Mall in Riyadh was the proud host of the 10th Riyadh Shopping Festival. HRH Prince Turky Bin Abdullah Bin Abdulaziz, Mayor of Riyadh, inaugurated the official opening of the Festival at a spectacular event which attracted thousands of visitors and further increase the awareness and popularity of the Mall.

2014 also saw an expansion of leasing activity, with lease agreements being finalized with a range of well-known brands including Starbucks, Baskin Robbins, Herfy, Blue Age, Mamma Roti and Al-Dahamfor Watches,

7.2.2.4 Al Tilal

The Al Tilal community is another location that is experiencing demand from the corporate and Government sectors. In late 2014, terms were agreed with National Guard Health Affairs to lease 82 villas for staff accommodation and facilities.

7.2.3 Awards Received

The Al Qasr Mall received awards for hosting a series of public health and community awareness events including Smart Diets, World Disability Day, Oral Health and Drug Awareness. These events are part of the Mall's ongoing contribution to local community health and well-being.

7.3 Leased Area Under Management

The scale and range of the property management service can be judged from the following table which lists the lease portfolio by development and property type.

Leased assets under management grew to 726,716 sqm by the end of 2014.

Development	Leasable Area (sq.m.)	Residential	Commercial	Office
Al Qasr Community	512,504	2,447 apartments 102 villas	348 showrooms	65 offices
Al Qasr Mall	78,496		350 shops, stores and outlets	
Azizia Towers	40,746	276 apartments	6 showrooms	
Al Masif Gated Community	6,838	26 villas		
Al Tilal	87,025	279 villas		
King Fahd Road Building	1,107			1 office building
Total	726,716			

7.4 Description of the Leased Asset Portfolio

7.4.1 Al Qasr Community

Al Qasr is Dar Al Arkan's first planned community in the Kingdom. Situated in Al-Swaidi district of Riyadh its modern, spacious layout is proving to be popular with middle income families, Government and corporate institutions. Its location adjacent to King Fadh Road provides good access to key Government agencies and the central business district. With a leasing mix of almost 3,000 units (2,447 apartments, 102 villas, 348 showrooms and 65 office units) the Al Qasr Community is a leading example of master-planned communities in the Kingdom. Families enjoy the spacious urban design, parks, schools and shops. Further significant investment is being made in schools and Government administrative offices, which is increasing the attraction of the community as a place to live and work. During 2014, Al Qasr experienced significant demand from the corporate and Government sectors and a large number of leasing enquiries are being processed.

Current tenants of Al Qasr include the Ministry of Foreign Affairs, Military Hospital in Riyadh, Ritz Carlton (staff accommodation), Boudl Furnished Apartments and Al Hammadi Hospital.

7.4.2 Al Qasr Mall

The state-of-the-art Al Qasr Mall provides an important retail and entertainment destination for the residents of Central, Southern and Western Riyadh. With a total area of 250,000 sq.m. and 350 shops, family entertainment and food and beverage outlets, the Mall offers visitors a modern, spacious environment that provides a convenient location for shopping, socializing and family leisure. Its wide range of retail, food and entertainment includes famous brands such as Koton, Al Homadi, Etam, H&M, Mothercare, Swatch, Boots, Vision Express, Foot Locker, Evans, Next, Mango, Suit Blanco, Mac, Blue Age, Nayomi, SportsOne, CityMax, Red Tag, E-Max, Lindex, Carolina Box, SportsSac, Cole Haan, Coach, Shoe Express, Sun Sand & Sports. Throughout 2014 the Mall continued to focus on providing a unique experience to local shoppers and young families, as well as providing events and entertainment that attract families from across Riyadh. Al Qasr Mall hosted a series of social and health awareness events, including events in smart diet, and the International Day for Disability, Dental Health and Awareness events on the harms of drugs. These events represent a part of the ongoing community and social contributions of the Mall.

7.4.3 Azizia Towers

The Azizia Towers development in Mecca is located in the heart of the Azizia quarter on Prince Sultan Street, only 5.5km from the Holy Mosque and 3km from the Mashaer Mina.

The development comprises 7 towers, including 3 towers at the front overlooking Prince Sultan Street each with 12 residential floors and 4 towers at the rear, each with 11 residential floors.

Azizia Towers comprises a total built up area of 76,486 sqm, which includes 276 apartments with a net residential area of 38,475 sqm, and 6 showrooms with a total area of 4,818 sqm. The Towers are leased to King Abdullah Medical City.







7.4.4 Al Masif

The Al Masif gated community represents another investment in providing distinctive, quality residential environments to the corporate segment.

Located in the Al Masif neighborhood of North Riyadh, the gated community comprises 26 duplex villas surrounded by green space, with children's play area and a swimming pool. In 2014, Al Masif was leased to NESMA.





7.4.5 Al Tilal




Al Tilal is located in the South West of Madinah, on Prince Sultan Bin Abdulaziz Road, within the Holy Prophet Mosque Haram area. Al Tilal is a comprehensive urban development, on 2.2 million sq.m. of land, with 499 villas, provision of land for schools, mosques and parks and with developed land plots for sale in the remaining area.

The lease portfolio comprises 279 villas, which have been targeted previously to individual tenants. During 2014, the leasing efforts were directed more to the corporate and Government segments, both of which are growing in importance in the Madinah area. Further improvements are being planned also to the public areas and street-scapes.



ANNUAL REPORT 2014

Dar Al-Arkan Real Estate Development Company

The Financial Results

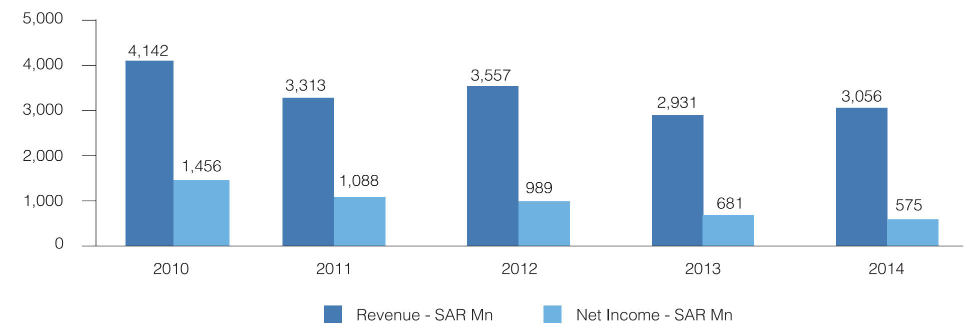
8 The Financial Results

8.1 The Income Statement for the Fiscal Years 2010 to 2014

The following table illustrates the main income statement items for the last five years. This should be read in conjunction with the audited consolidated financial statements and accompanying notes.

Item (in SR '000s)	2014	2013	2012	2011	2010
Operations' revenue	3,056,060	2,931,168	3,557,072	3,312,510	4,141,981
Cost of revenue	(1,756,805)	(1,778,097)	(2,163,366)	(1,943,497)	(2,377,724)
Gross profit	1,299,255	1,153,071	1,393,706	1,369,013	1,764,257
Principal activities expenses	(279,341)	(182,692)	(209,279)	(118,594)	(146,599)
Net income from principal activities	1,019,914	970,379	1,184,427	1,250,419	1,617,658
Financing expense	(493,294)	(313,959)	(264,086)	(212,809)	(214,311)
Net other Income	62,895	42,570	93,626	99,699	79,364
Net income before Zakat provisions	589,515	698,990	1,013,967	1,137,309	1,482,711
Zakat provisions	(14,820)	(17,528)	(25,430)	(49,374)	(27,000)
Net income	574,695	681,462	988,537	1,087,935	1,455,711
Earnings per share	0.53	0.63	0.92	1.01	1.35

Total revenue and net income changes from 2010 to 2014



8.2 The Balance Sheet for the Fiscal Years 2010 to 2014

The following table illustrates the main balance sheet items for the last five years. This should be read in conjunction with the audited consolidated financial statements and accompanying notes.

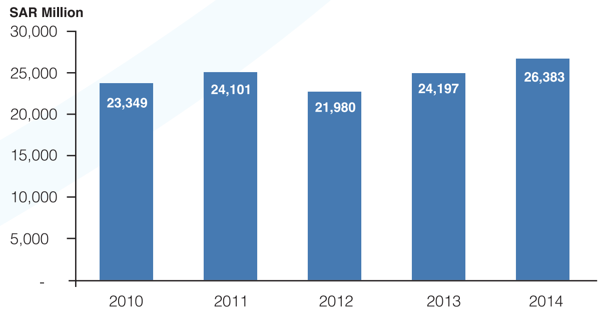
Item (in SR '000s)	2014	2013	2012	2011	2010
Assets					
Current Asset	5,668,959	5,099,412	3,552,478	6,411,458	3,868,815
Non-current Asset	20,642,308	19,023,550	18,350,137	17,606,697	19,389,020
Fixed Asset	71,279	74,370	77,674	82,604	91,026
Total Asset	26,382,546	24,197,332	21,980,289	24,100,759	23,348,861
Liabilities					
Current Liabilities	3,337,922	2,027,894	2,362,996	5,741,282	2,157,558
Non-Current Liabilities	5,477,108	5,176,617	3,305,934	2,771,914	6,691,675
Total Liabilities	8,815,030	7,204,511	5,668,930	8,513,196	8,849,233
Equity					
Capital	10,800,000	10,800,000	10,800,000	10,800,000	10,800,000
Statutory reserve	942,384	884,914	816,768	716,768	607,768
Retained earnings	5,825,132	5,307,907	4,694,591	3,806,054	2,827,119
Total shareholders' Equity*	17,567,516	16,992,821	16,311,359	15,322,822	14,234,887
Total Liabilities and Shareholders' Equity	26,382,546	24,197,332	21,980,289	24,100,759	23,348,861
Book value per share**	16.27	15.73	15.10	14.19	13.18

Total shareholders' Equity for the years 2010 and 2011 excluded non-controlling interest from Dar Al-Arkan's subsidiaries of SR 265 million

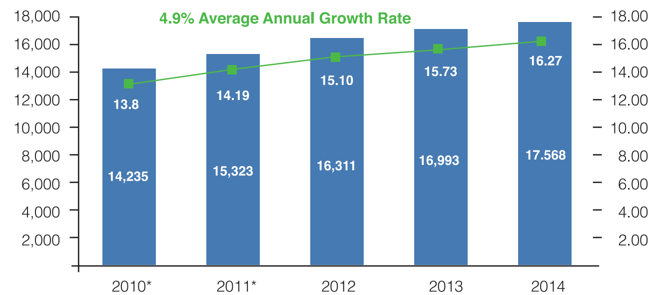
**Book value per share is calculated by dividing the total shareholders' equity by total number of outstanding shares at the end of each fiscal year.

The Company discloses that for commercial and practical reasons, it registers some of its real estate assets under the name of representatives or agents, in return for official documents against them evidencing the Company's ownership of these assets. This procedure is adopted by some local Saudi banks and companies. However, the Company only undertook this course of action following legal consultation that assures the soundness of this practice, which preserves the Company's shareholders' rights.

Total assets from 2010 to 2014



Shareholders' equity and share book value changes from 2010 to 2014



* The years, 2010,& 2011 excluded non-controlling interest from Dar Al-Arkan's subsidiaries of SR 265 million

8.3 Results of Operations

The following table compares the results of operations for 2013 and 2014

Item (in SR '000s)	2014	2013	Change (+or -)	Change %
Revenues	3,056,060	2,931,168	124,892	4.26%
Cost of revenues	1,756,805	1,778,097	(21,292)	(1.20%)
Gross Profit	1,299,255	1,153,071	146,184	12.68%
Principal activities expenses	279,341	182,692	96,649	52.90%
Net income from principle activities	1,019,914	970,379	49,535	5.10%
Financing charges	493,294	313,959	179,335	57.12%
Net other Income	62,895	42,570	20,325	47.74%
Net Income before Zakat provisions	589,515	698,990	(109,475)	(15.87%)
Zakat provisions	14,820	17,528	(2,708)	(15.45%)
Net Income	574,695	681,462	(106,767)	(15.67%)
Earnings Per Share	0.53	0.63	(0.10)	(15.87%)

8.3.1 Revenues

Total revenues were SR 3,056 million in 2014, compared to SR 2,931 million in 2013, representing an increase of 4.3%. The increase is mainly due to the increase in land sales and rental income as well as in residential unit sales.

Rental revenues increased by 15% to reach SR 125 million during 2014 compared to SR 108 million in 2013 due to acquisition of new rental properties and the growing occupancy ratios of the Company's residential and commercial properties assigned for lease in the Riyadh, Mecca and Madinah regions.

Revenues from the sale of residential properties in 2014 were SR 8 million compared to SR 0.5 million in 2013; the increase is primarily due to the balance units being sold in 2014.

Revenues from the sale of land were SR 2,923 million in 2014 compared to SR 2,822 million in 2013, representing an increase of 3.6%. The increase in land sales was mainly due to higher average price of land sold. The total area of land sold during 2014 was 3.23 million square metres, a decrease of about 1.9 million square metres from 2013 level when 5.16 million square metres of land were sold.

The Company recognizes revenues from land sales upon signing of a contract and on receipt of at least 20% of the transaction value as a non-refundable advance payment. The remaining balance due is recorded in accounts receivable. Transfer of ownership to the buyer and registration of the land is finalized only after full payment of the transaction value is received.

8.3.2 Cost of Revenue

Cost of revenue accounted for SR 1,757 million in 2014, representing 57.5% of total revenues compared to SR 1,778 million in 2013 or 60.7% of total revenues. This small decrease in the cost of revenue is mainly due to the higher gross profit generated by the land sales revenue in 2014 compared to 2013.

8.3.3 Selling and General Administrative Expenses

Selling and general administrative expenses were SR 237 million in 2014 compared to SR 151 million in 2013, representing an increase of 57%. The increase is primarily due to higher head count related expenses and higher professional consulting services.

8.3.4 Financing Charges

Net financing charges were SR 493 million in 2014 compared to SR 314 million in 2013, representing an increase of SR 179 million. This increase is primarily attributable to increased borrowing and lower capitalization of finance costs.

8.3.5 Net other income

Net other income was SR 63 million in 2014 as compared to SR 43 million in 2013. The increase of SR 20 million is mainly due to higher income from investment in associates and better finance rates on investment of cash balance in Islamic deposits.

8.3.6 Net Income

Net income in 2014 was SR 575 million compared to SR 681 million in 2013. Earnings per share were SR 0.53 in 2014 compared to SR 0.63 in 2013. In conclusion from the above, the decrease in net income was driven by higher selling and general administrative expenses and finance costs in spite of higher gross profit from higher revenue and margins.

8.4 Liquidity and Capital Resources

As of 31 December 2014, we had cash and cash equivalents of SR 2,310 million compared with SR 2,279 million as at 31 December 2013.

8.4.1 Cash Flows

The following table sets out the Company's cash flows for the financial periods 2013 and 2014:

(in millions of Saudi Riyals)	2014	2013
Funds from Operating Activities	333	1,005
Funds (used in)/ from Investing Activities	(1,966)	(751)
Funds from/ (used in) Financing Activities	1,664	1,490

Net cash flow from operations stood at SR 333 million in 2014 compared to SR 1,005 million in 2013. The negative variance is mostly related to the increase in receivables, higher prepayment for land purchases and other working capital movements in 2014.

The Company's net investments in land and project development have primarily led to an overall outflow of cash in investing activities of SR 1,966 million in 2014.

The cash inflow from financing activities of SR 1,664 million was primarily from issuance of new international Islamic Sukuk for SR 1,500 million during the year, excluding short term deposit of SAR 1,175 which is considered as cash with some banks.

8.4.2 Projects and Investment Expenditures

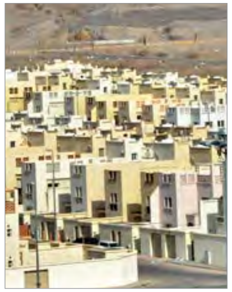
Our priorities for expenditure on projects include continuing to build integrated residential developments, investing in developing land and purchasing and developing income generating properties. During 2014, we spent SR 3,670 million on land purchases, acquisition of rental properties and development projects.

The amount and timing of project expenditure may be affected by a number of risks. We believe that our requirements for project expenditure can be met through a combination of cash generated from operations and external finance from various sources.

9 Dividend Policy

Based on the results of the financial performance of the previous years and as approved by the Company's General Assembly meetings, dividends are paid to shareholders based on the Company's income, financial status, market and general economic conditions, as well as other factors such as the existence of investment opportunities, re-investment requirements, cash and financial reserves, business opportunities, and other regulatory considerations.

Article (43) of the Company's Articles of Association stipulates that in the event of a cash dividend to shareholders, the Company should distribute its net profit after Zakat (tax) allocation and allowing for a statutory 10% of net income as a statutory reserve. The remainder could be distributed to shareholders at no less than 5% of the paid-up capital.



10 The Company's Financing Program

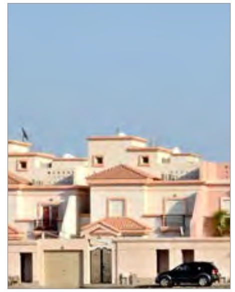
10.1 Financing Strategy

DAAR's Financial Strategy is still in line with the vision of 2007, where the company primarily focused on matching its project investment cycle of three to five years with the maturity profile of its funding. The Company continues to seek diversification in its sources of funding so it is not solely dependent on local banks and capital markets. The Company has successfully implemented its funding strategy which is evident from the issuance of a series of local and international Shariah-compliant Sukuks over the last seven years; the Company has successfully issued six international and one local Sukuk. In the year of 2014 the Company successfully issued its seventh Sukuk for SR 1.5 billion and successfully repaid the remaining SR 100mn of the third Sukuk local issuance of SR 750mn, left from the early repayment of SR 650mn in Dec, 2103.

Total funds raised from Sukuk amounted to SR 12.8 billion, SR 6.8 billion of which has already been repaid by the end of 2014, whereas the remaining SR 6 billion is due for maturity within the next 1-5 years. Pursuant to its diversification strategy, the Company has successfully established good relationships with local, regional and international banks where it has achieved short and medium term financing mostly through Islamic Murabaha or Ijarah facilities for general corporate purposes. The total outstanding amount at the end of 2014 was SR 1.9 billion.

The ratio of long term (Sukuk) to total finance as at end of 2014 was approximately 76%, whereas short and medium-term financing was 24%. In future, the Company's financing strategy will continue to focus on further diversifying its sources of funding including acquiring project specific financing from local and regional banks, as well as exploring other International Sukuk markets. The Company is also building a portfolio of rental properties, where these income-generating assets can be offered as security for loans from financial institutions. In addition, Dar Al-Arkan's excellent credit record should continue to facilitate access to domestic and international capital markets for issuance of Islamic Sukuk.

10.2 Indebtedness



All financing taken by the Company locally or internationally is Shariah-compliant and follows the structures of Ijarah and Murabaha transactions. Below is a description of the repayments and outstanding debts at the end of 2014.

10.2.1 Increase in Financing at the end of 2014

By the end of 2014, the Company raised total net financing of SR 1.71 billion. The Company issued new Sukuk in May 2014 for SR 1.5 billion at a coupon rate of 6.5%. The Company repaid 13% (SR 100 million) of its 2014 SR 750m third Sukuk (local issuance) on time in April 2014, and also repaid some of the local bilateral Murabaha facilities amounting to SR 372 million.

Bilateral Islamic Facilities in SR mn	settlement	Opening Balance	Paid During 2014	Addition During 2014	Closing Balance
Murabaha 1 – Local Bank	Fully settled	50	50	-	-
Murabaha 2 – Local Bank	Fully settled	29	29	-	-
Murabah3 - Local Bank	Quarterly payment from Q1-14	400	133	-	267
Ijarah 1 – Local Bank	Bullet Payment	46	-	-	46
Murabaha 4 - Local Bank	Quarterly settlement	60	20	-	40
Ijarah 2 – Local Bank	Bullet Payment	42	-	-	42
Murabaha5 – Local bank	Quarterly settlement	8	8	-	-
Ijarah 3 – International Banks	Quarterly settlement	661	94	860	1,427
Murabaha6 – GCC Bank	Quarterly settlement	94	38	-	56
Gross Total		1,390	372	860	1,878

The ratio of net debt to total assets stood at 20.1% at the end of 2014.The closing cash balance improved to SR 2,310 million at the end of 2014 compared to SR 2,279 million reported at the end 2013.

Summary of the Murabahas and Sukuks

Maturity	In millions of Saudi Riyal		
	Outstanding balance	Murabaha	Sukuk
2015	2,324	636	1,688
2016	1,773	648	1,125
2017	476	476	-
2018	1,807	119	1,688
2019	1,500	-	1,500
Total	7,880	1,878	6,000

10.3 Overview of the Sukuk Issuances and Repayments in 2014.

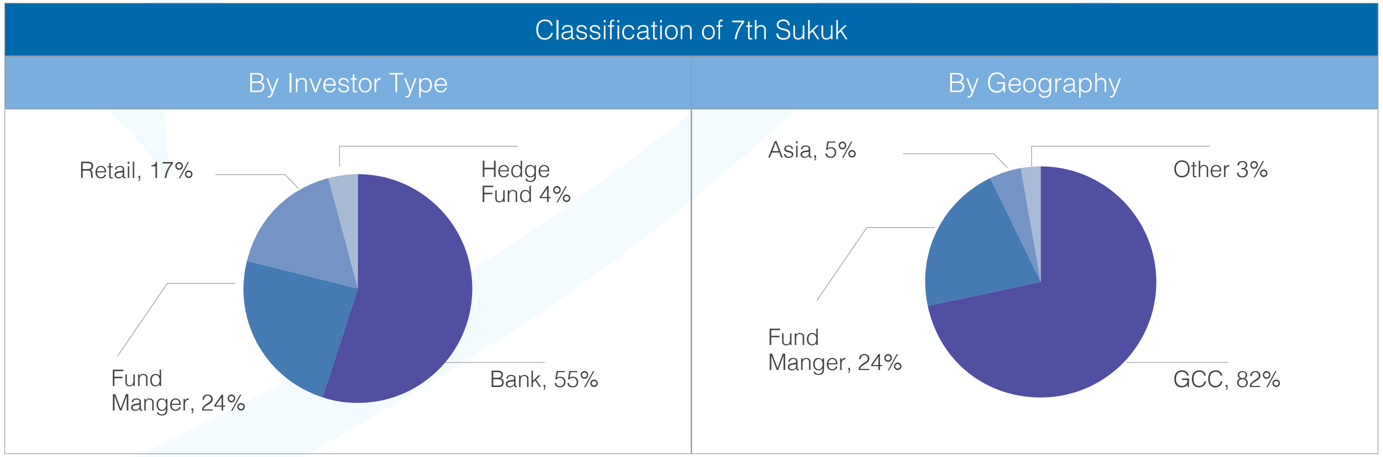
10.3.1 The Repayment of the Third Sukuk Issuance

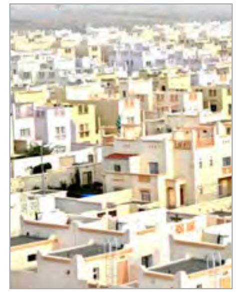
On 14 April 2014, Dar Al-Arkan concluded the repayment of the remaining SR 100mn, which was 13% of its SR 750m local Islamic Third Sukuk maturing on 15 April 2014. The 87% of the same Sukuk was purchased on 23rd of December, 2013, four months prior to its maturity, and was subsequently been cancelled. This partial repayment ahead of the scheduled redemption date is in line with DAAR's strategy to manage its liabilities efficiently and to fulfill its commitments proactively.

10.3.2 The Seventh Sukuk Issuance

On 21 May 2014, Dar Al-Arkan priced $400mn of 5-year Reg S Sukuk Al-Wakala certificates as the 3rd tranche from its $1.2 billion Reg S Trust Certificate Issuance Programme. The price for the Sukuk was resulted in a coupon rate of 6.5%. The transaction was heavily subscribed by commercial and Private Banks (72%) whereas Fund Managers were the second largest group of investors.

Geographically the Sukuk was very popular in the region; 82% of Sukuk participants were from GCC countries and the remaining were from Europe and the Rest of the World.





10.3.3 The Early Partial Repayment of the Fourth Sukuk Issuance

During the course of fourth Quarter 2014, Dar Al-Arkan concluded the purchase of SAR 164mn, which is 9.7% of its SR 1.68 bn International Islamic fourth Sukuk maturing on 18 Feb 2015. The 9.7% purchased Sukuk will be cancelled with the remaining SR 1.51bn that is due for maturity on 18 Feb 2015. This partial repurchase ahead of the scheduled redemption date is in line with DAAR's strategy to manage its liabilities efficiently and to fulfill its commitments proactively.

11 Related Party Transactions

During 2014, the Company entered into transactions with related parties. The Company follows the same procedures as with other non-related parties.

11.1 Saudi Home Loans (SHL)

In the ordinary course of business, the Company enters into transactions with Saudi Home Loans “SHL”. SHL is a related party and the Company owns a 15% equity stake. The common Board members between SHL and Dar Al-Arkan are namely: Mr. Yusuf Abdullah Al Shelash, Mr. Hathloul Saleh Al Hathloul, Mr. Tariq Mohammed Al Jarallah and Mr. Abdullatif Abdullah Al Shelash. The nature of these transactions was for the financing of Dar Al-Arkan’s customers to buy homes. The choice of SHL as a home loan provider is at the discretion of the customer. During 2014, there were no sales transactions with SHL, however there were certain renovation services undertaken by Dar Al-Arkan on behalf of SHL for SR 50,000 which is fully paid resulting in a total amount of SR 143,000, that was due from this related party for transactions recorded in prior years.

11.2 Khozam Real Estate Development Company (KDC)

Khozam Real Estate Development Company (KDC) is a related party as the Company has a 51% equity holding and also has common members in Board of Managers who are in the Board of Directors of Dar Al-Arkan. The common management committee members are Mr. Tariq Mohammed Ali Al Jarallah and Mr. Abdullatif Abdullah Al Shalash. The management of KDC requested that it invests its excess cash balance (opening balance as at beginning of 2014 amounted to SR 196.25 million) with Dar Al-Arkan at nominal interest repayable on demand to facilitate its working capital needs. During 2014 the Company repaid SR 1.86 million of this in advance, together with interest of SR 1.22 million for its operational requirements. The closing balance as at 31 December 2014 was SR 195.61 million.

11.3 Bank Alkhair

During 2014, the Company entered into transactions with Bank Alkhair B.S.C, which is a related party because it has common Board Members with Dar Al-Arkan. The common Board Members are Mr. Yousef Abdullah Al Shelash, Mr. Hethloul Saleh Al Hethloul, Mr. Majed Abdulrahman Al Kasim, and Mr. Abdullatif Abdullah Al Shalash. The Company enlisted Bank Alkhair to provide general financial advisory work on Shariah-compliance advice and management of the recent international Sukuk issuances. During 2014 there were no fees and expenses charged except the opening balance of SR 1.3 million of which SR 1.2 million was paid. The remainder is to be paid in the current year.

11.4 Alkhair Capital

During 2014, the Company entered into transactions with Alkhair Capital, which is a related party because the Company owns a 34% equity stake and also has common Board Members with Dar Al-Arkan. The common Board Members are Mr. Yousef Abdullah Al Shelash, Mr. Hethloul Saleh Al Hethloul, and Mr. Abdullatif Abdullah Al Shalash. Alkhair Capital was engaged to provide general financial advisory, representing and filing the documents on behalf of the Company with CMA, Tadawul and other statutory bodies, Shariah compliance reviews and management support for the recent international Sukuk issuances, the partial pre-closure of the Third Sukuk and leasing/ subleasing of properties. Fees, lease rentals charged during the year amounted to SR 4 million which has been paid.

12 Risks Attributable to the Company's Activities

- Availability of cost effective funds required to undertake large capital investments to achieve the Company's growth objectives.
- Reliance on overall growth in the real estate sector and the economy. Any long term slowdown will negatively impact the Company's growth.
- Reliance on contractors and service providers to fulfill their contractual obligations. Any shortfall in their performance could affect the projects' completion and profitability.
- Cost of the Company's projects would be adversely affected by any unexpected rise in materials or labour prices.

13 Management and Administration

13.1 Board of Directors

During 2014, Eleven members of Board of Directors runs the Company, of whom two is executive, two are non-executive and 7 are independent members. The Board shall hold regular quarterly meetings on the invitation of the Chairman, and in each case the Board considers the need for such convening meetings. The Board held five meetings during 2014 and the members' attendance is as shown below:

	Name	Capacity/membership	Attendance	Other JSC Membership
1	Yousuf Abdullah Al Shelash	Chairman/non-executive	5	Saudi Home loans Co. (SHL) Alkhair Investment Bank Alkhair Capital
2	Abdullatif Abdullah Al Shelash	Executive	5	Saudi Home loans Co. (SHL) Alkhair Investment Bank Alkhair Capital
3	Abdulrahman Hamad Al Harkan	Executive	5	
4	Hathloul Bin Saleh Al Hathloul	Independent	5	Saudi Home loans Co. (SHL) Alkhair Investment Bank Alkhair Capital
5	Khalid Abdullah Al Shelash	Non-executive	5	
6	Tariq Bin Mohamed Al Jarallah	Independent	5	Saudi Home loans Co. (SHL)
7	Abdul Aziz Abdullah Al Shelash	Independent	5	
8	Majid Romi Al-Romi	Independent	5	
9	Ahmed Mohammed Al Dahash	Independent	4	
10	Majed Abdul Rahman Al Qasim	Independent	5	Alkhair Investment Bank
11	*Saleh Bin Mrikhan AlMutairi	Independent	2	
12	*Fahad Saleh Al-Ajlan	Independent	2	Yanbu Cement Company

* The Board of Directors has approved on 6/4/2014 the resignation of Mr. Fahad Bin Saleh AlAjlan dated 30/3/2014, who is independent director, representing General Organization Of Social Insurance (GOSI) and appointed Engr. Saleh Bin Mrikhan AlMutairi, independent director, representing General Organization Of Social Insurance (GOSI), effective 06/04/2014 as replacement requested by GOSI.

13.2 Board Meetings Register

The Board meets at the request of the Chairman, and at other times contingent on specific requirements. The Board held five meetings in 2014 according to the attendance record shown below:

	Name	19-Feb	9-Mar	6-Apr	16-Jun	30-Dec
1	Yousuf Abdullah Al Shelash	✓	✓	✓	✓	✓
2	Abdullatif Abdullah Al Shelash	✓	✓	✓	✓	✓
3	Abdulrahman Hamad Al Harkan	✓	✓	✓	✓	✓
4	Hathloul Bin Saleh Al Hathloul	✓	✓	✓	✓	✓
5	Khalid Abdullah Al Shelash	✓	✓	✓	✓	✓
6	Tariq Bin Mohamed Al Jarallah	✓	✓	✓	✓	✓
7	Abdul Aziz Abdullah Al Shelash	✓	✓	✓	✓	✓
8	Majid Romi Al-Romi	✓	✓	✓	✓	✓
9	Ahmed Mohammed Al Dahash	✓	✓	✓	✓	✓
10	Majed Abdul Rahman Al Qasim	✓	✓	✓	✓	✓
11	Saleh Bin Mrikhan AlMutairi	-	-	-	✓	✓
12	Fahd Ssleh Al-Ajlan	✓	✓	-	-	-

13.3 Board Committees

The Board comprises three committees: Executive, Audit and a Remuneration and Nominations committee. The formation of these committees as follows:

13.3.1 The Executive Committee, Consisting of:

1-	Yousef Bin Abdullah Al Shelash	Chairman
2-	Tariq Bin Mohamed Al Jarallah	Member
3-	Abdullatif Bin Abdullah Al Shalash	Member
4-	Dr. Abdulrahman Bin Hamad Al Harkan	Member

Committee Responsibilities and Meetings:

These are as follows:

Monitor the implementation of the strategy by overseeing the preparation of the operational plan and its execution; reviewing and recommending the adoption of the Company's values, vision, goals and policies that determine the Company's overall approach to executing its work; pursue financing plans in respect of the Company's investments; provide advice in relation to investments including engagement in mergers and or joint ventures and/ or obtaining project financing; ensure the allocation of resources for the implementation of the Company's strategies such as funding and human resources; develop criteria for selecting the CEO and senior executive staff and to supervising its implementation; review and evaluate the performance of the executive management in achieving the goals of the set strategy and monitor and address any deviations; review and evaluate the strategy plans quarterly in order to evaluate and modify them when necessary according to market information and internal requirements; review periodic reports presented by the executive management that relate to the Company's competitive situation and organisational, financial and technical factors which may affect the Company's long term strategy; approve the recommendations of the human resources policies and regulations; review and evaluate the market and competitive trends put forward by the executive management and assess its impact on the Company's business. The Committee held 8 meetings in 2014.

13.3.2 The Audit Committee, Consisting of:

1-	Tariq Bin Mohamed Al Jarallah	Chairman
2-	Majed Bin Abdulrahman Al Qasim	Member
3-	Hathloul Bin Saleh Al Hathloul	Member
4-	Majed Bin Romi Al Romi	Member

The Committee's Responsibilities and Meetings:

These are as follows:

Recommendation to the Board of Directors to appoint auditors and set their retainer after being satisfied of their independence and approve any work outside the scope of the audit assigned to them; review and follow up recommendations made by the auditor on the financial statements; see the audit plan with the auditor and discuss all issues that fall within their remit at regular meetings with the auditor; review interim and annual financial statements before submission to the Board of Directors and give an opinion and recommendation on these statements; periodically review the accounting policies of the Company against the regulations and initiatives and give recommendations to the Board; decide on any dispute that may arise between the Company's management and the auditor in respect of his scope and nature of work; oversee the Company's internal audit department to verify its effectiveness and independence to execute tasks and functions set by the Board of Directors; review and approve the annual audit plan and all significant changes therein; ensure the compliance of the internal audit department with international standards for the professional practice of internal auditing; review the internal audit reports and pursue any corrective action required; review and give a written opinion and recommendation on the internal control system; evaluate the effectiveness of the Company's risk management and the measures adopted by the management to observe and deal with these risks; oversee the compliance department and verify its effectiveness; approve the policies and compliance manual; assess the compliance policies in a regular manner and verify their effectiveness as well as supervise the efforts of the Company to comply with policies and rules of professional conduct and relevant regulations. The committee held 5 meetings during 2014.

13.3.3 The Nominations and Remuneration Committee, Consisting of:

1-	Majed Bin Abdulrahman Al Qasim	Chairman
2-	Yousef Bin Abdullah Al Shelash	Member
3-	Khalid Bin Abdullah Al Shelash	Member
4-	Abdulaziz Bin Abdullah Al Shelash	Member

Committee Responsibilities and Meetings:

Recommendation to the Board of Directors to nominate for Board membership; annual review of the appropriate skills needed for Board membership and provide a description of the capabilities and qualifications required for membership; review the structure of the Board of Directors and recommend necessary changes identifying weaknesses and strengths; confirm periodically the independence of members and absence of any conflict of interests in the event of another Company Board membership; develop clear policies and criteria for Board members and senior executive remuneration according to performance criteria. The Committee held 4 meetings during 2014.

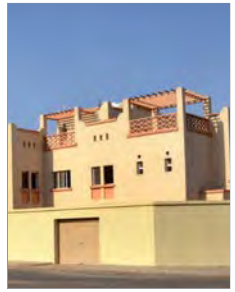
14 Remuneration and Compensation Paid to Board Members and Senior Executives

The following table shows the remuneration and compensation paid to Board members and the top five senior executives who received the highest bonuses and compensation from the Company during 2014.

Description (in Saudi Riyal)	Executive Board members	Non-executive/ independent Board members	Senior executives (including general manager and CFO)
Salaries and compensation	-	-	7,804,810
Allowances	-	-	2,309,160
Periodic and annual bonuses	-	-	-
Incentive plans	-	-	-
Any other compensations or incentives paid monthly or annually	-	-	-

15 Description of any Interest of contractual securities and underwriting rights of Board Directors and Senior Executives and their relatives in the Shares or debt instruments of the company or any of its affiliates and any change in that interest or rights during the last

Name	capacity	No. of shares at the beginning of the year	Ownership percentage at the beginning of the year	Net variance in the No. of shares during the year	Total shares at the end of the year	Total ownership percentage at the end of the year	Nature of ownership
Yousef Abdullah Al Shelash	Chairman	3,673,366	0.3401%	(3,673,366)	1,000	0.0001%	Direct
		2,120,000	0.1963%	(2,120,000)	-	0.0000%	Indirect: a share in the ownership of private company
Hathloul Bin Saleh Al Hathloul	Board member	7,388,482	0.6841%	(2,659,000)	4,729,482	0.4379%	Direct
Khalid Bin Abdullah Al Shelash	Board member	98,352,745	9.1067%	(25,596,769)	72,755,976	6.7367%	Direct
		957	0.0001%	-	957	0.0001%	Direct Owned by direct relative
Majid Bin Abdulrahman Al Qasim	Board member	2,800,000	0.2593%	1,394,550	0.2593%	2,800,000	Direct
		639,154	0.0592%	-	0.0592%	639,154	Direct Owned by direct relative
Tariq Bin Mohamed Al Jarallah	Board member	3,000	0.0003%	-	0.0003%		Direct
		34,320,000	3.1778%	-34,320,000	0.0000%		Indirect: a share in the ownership of private company
Abdulaziz Bin Abdullah Al Shelash	Board member	2,445,000	0.2264%	1,754,550	4,199,550	0.3888%	Direct
		17,517,500	1.6220%	(17,517,500)	-	0.0000%	Indirect: a share in the ownership of private company
Majid Bin Romi Al Romi	Board member	7,038,363	0.6517%	(2,843,813)	4,194,550	0.3884%	Direct
		19,662,500	1.8206%	(19,662,500)	-	0.0000%	Indirect: a share in the ownership of private company



15 Description of any Interest of contractual securities and underwriting rights of Board Directors and Senior Executives and their relatives in the Shares or debt instruments of the company or any of its affiliates and any change in that interest or rights during the last

Name	capacity	No. of shares at the beginning of the year	Ownership percentage at the beginning of the year	Net variance in the No. of shares during the year	Total shares at the end of the year	Total ownership percentage at the end of the year	Nature of ownership
Abdullatif Bin Abdullah Al Shalash	Board member	6,923,000	0.6410,%	1,214,550	8,137,550	0.7535%	Direct
Ahmed M. Othman Al Dahash	Board member	2,005,104	0.1857%	-	2,005,104	0.1857%	Direct
Saleh Bin Mrikhan AlMutairi (person)	Board member	-	%0.0000	-	-	%0.0000	Direct
Saleh Bin Mrikhan AlMutairi (as represetative of GOSI)	Board member	43,780,457	%4.0537	(11,539,000)	32,241,457	%2.9853	Owned by general Organisation for social insurance
Abdulrahman H. S. Al Harkan	Board member & GM	10,000	0.0009%	-	10,000	0.0009%	Direct
Ahmed Bin Saleh Al Dehailan	Chife internal Audit	80,000	0.0074%	-	80,000	0.0074%	Direct
TOTAL		**328,301,004**	**%30.40**	**(79,539,376)**	**248,761,628**	**%23.03**	

16 Description of any interest in voting shares of any persons (other than Board Directors and Senior Executives and their relatives) notifying the Company of ownership of 5% or more and any changes in that.

Name	Notification date	No. of shares	Ownership percentage	Variance in percentage of shares during the year	Nature of ownership
Kingdom installment Company	21-Jan-2014	86,500.000	8.009%		
	12-Jun-2014	-	0.000%	8.009%	
Sultan Bin Abdulrahman Abi Al Khail	12-Jun-2014	46,200.000	4.278%		Direct
		28,353.234	2.625%		Indirect: a share in the ownership of private company
	17-Dec-2014	32,200.000	2.981%	-1.296%	Direct
		28,353.234	2.625%	0.000%	Indirect: a share in the ownership of private company
Abdulrahman Bin Abdallah Al Oraini	12-Jun-2014	46,512.673	4.30%		Direct
		33,016.922	3.057%		Indirect: a share in the ownership of private company
	21-Dec-2014	32,212.673	2.983%	-1.324%	Direct
		33,016.922	3.057%	0.000%	Indirect: a share in the ownership of private company

17 Corporate Governance

Subject to Corporate Governance issued by the Capital Market Authority, the Board of Directors has approved the Company's Corporate Governance taking into consideration the rights of shareholders, customers, employees and all stakeholders and care for their interests. Corporate Governance is committed to the principles of transparency and disclosure, activating the role of the Board and the executive management and identifying their responsibilities and training on an on-going basis. It also seeks to enhance the effectiveness of internal control and risk management. Additional compliance with Corporate Governance regulation issued by the Capital Market Authority means adopting

CSR Company of The Year
Saudi Arabia 2014
by The European

best practices in Governance to enhance the corporate culture and ensure sound management. Ultimately this is to reflect the Company's desire to work hard to reach the highest levels of governance, setting an example as a national company. The Board of Directors achieves its objectives through effective Committees, namely the Executive, Audit, Nominations and Remuneration committees.

It worth noting that the Company applied all the corporate governance rules issued by the Capital Market Authority including mandatory and optional items except clause (b) of Article 6 in relation to The adoption of cumulative voting as a means of voting in respect of member elections to the Board at the General Assembly meetings. The adoption of cumulative voting rights is still under study, as the Company's by laws have not included rules on cumulative voting.

17.1 Corporate Governance Company of The Year MENA 2014 &CSR Company of the year Saudi Arabia 2014 by The European

Dar Al Arkan Real Estate Development Company has won the award of "Corporate Governance Company of the year – MENA" for 2014 by The European based on main follow criteria: Rights of shareholders, Transparency, Disclosure, Board and management meetings, Audit and Remuneration committee.

Moreover Dar Al-Arkan has been named the CSR Company of the year Saudi Arabia 2014 by The European. The main criteria for the CSR award are that the company implemented CSR projects and programs with significant impact on company's policies and environment. In addition, it is required that the nominated companies represent the role model and exert positive influence on their peers and communities.

18 Internal Audit

The internal audit function is one of the major departments in the Company. In recognition of its critical role and to ensure its independence, it reports directly to the Board of Directors. The function operates in accordance with the International Standards for the professional practice of Internal Auditing issued by the institute of Internal Auditors. Their professional staffs are certified by the International Institute of Internal Audit.

The internal audit function provides independent, objective and advisory services for the purpose of adding value and improving the Company's operations. Internal audit helps the Company achieve its goals by applying a methodology aimed at improving risk management process, controls, reviewing the effectiveness of internal procedures and enforcing corporate governance. Internal audit provides senior management and the Audit Committee with relevant, objective and timely information. This information is not limited to evaluating the current position of the Company but provides managers and the Board of Directors with information they need to discharge their responsibilities and take the appropriate financial and executive decisions. Internal audit achieves its objectives by helping company employees carry out their jobs effectively, providing them with analysis, assessment, recommendations, advice, and all information relevant to audit activity and cost-effective execution of all the Company's operations.

During 2014 the Internal Audit Department provided suggestions and recommendations regarding the improvement of some policies and procedures with the intention of improving performance and monitoring project cost and internal controls, in addition to giving support and assistance to other departments to help them attain their objectives.

19 Internal Control

The internal control system at Dar Al-Arkan represents an integrated process implemented by the Company's management and staff. The system is designed to mitigate risk, improve efficiency and effectiveness of all the Company's operations, ensuring accuracy and reliability of the Company's financial statements and compliance with laws and regulations to safeguard property against loss, damage or misuse.

19.1 Features of the Internal Control System

The Control Environment in the Company

The organizational structure is the framework for control of the Company where lines of responsibility and authority are delineated to clearly define relations within the organization and therefore strategy and investment structure.

Internal Control Procedures

The internal controls include administrative and accounting along with internal regulations of the Company. This is reflected in a series of policies and procedures approved by the Company in accordance with applicable laws.

19.2 Results of the Effectiveness of the Company's Internal Controls in the Annual Audit

During 2014, the Audit Committee of the Board of Directors reviewed various reports prepared by the Internal Audit Department and submitted a report to the Board of Directors regarding its recommendations. The Board of Directors reviewed the effectiveness of the Company's internal controls at financial and operational levels and was in compliance with policies and regulations. The review did not find any material weaknesses in the internal control system.

20 Investor Relations

Communication with shareholders, investors and the financial community are given high priority as an integral part to the Company's strategy and there is regular dialogue between Company executives and its shareholders, local and international investor base.

During the year, the Company undertook procedures that ensure shareholders' access to company information through transparent disclosure aligned to the rules of the Capital Market Authority (CMA). Information is disseminated through proper channels including the publication of periodic and annual financial statements, progress of projects, Board of Director recommendations and any other material occurrences relating to the Company's operations.

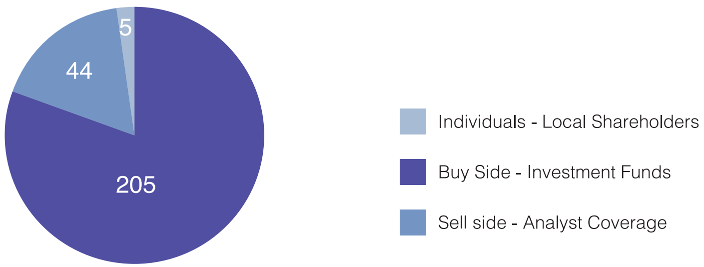
To enhance the effectiveness of communication with investors, analysts and the financial community, and in order to disseminate accurate information about the Company's operations, the Company holds periodic meetings with investors and other stakeholders including shareholders, Sukuk-holders and financial analysts from local and international banks that maintain coverage of the Company. The aim is to ensure the effectiveness of regular communication and transparent disclosure that will be reflected in a proper understanding and fair valuation of the Company's business.

Specialist staff in the investor relations department support shareholder, investor and analyst inquiries through a variety of channels. These include providing a toll free telephone number, e-mail and fax contact details, as well as developing the IR section on the Company website with full access to Company information.

The Company invites shareholders to attend the general assembly meetings and take part in decision making. The Company announces such invitations through the website of the Saudi exchange market (TADAWUL), the Company's website and daily newspapers. The Company facilitates automated systems to ensure accurate recording and counting of votes and transparent analysis of results by qualified staff that facilitate the running of general assembly operations in accordance with applied rules and in the presence of competent authorities. In light of this, the Company's shareholders were involved in voting in the eleventh ordinary general assembly meeting held on 15 June 2014.

In a bid to expand its investor base, the Company has participated in a number of international investor events to showcase success stories of its current projects and future investments. The Company's presence at these events has emphasized the solid base of the Company and its financial position, as well as the opportunities available in the Saudi real estate sector and the investment climate in the Kingdom in general.

An illustration showing Dar Al-Arkan meetings with its investors during 2014



21 Human Resources

Human Capital

The Company's management focus is to attract, acquire and retain competent employees to face current and future challenges and to invest in human capital by providing further training and skills development. The total headcount for the Company at 31 December 2014 is 306 employees.

Corporate Governance Company
of The Year MENA 2014
by The European

Senior Management Biography:

Dr. Abdulrahman bin Hamad Al Harkan - General Manager

Dr. Abdulrahman bin Hamad Al Harkan holds a doctorate degree in Architectural Engineering from the University of Michigan Ann Arbor in America and worked in several management and academic positions in the public and private sector.

Alan David Masterton – Chief Asset Management Officer

Alan holds a master's degree in business administration from the University of London, and has worked in several management positions as a Project Director at KAUST and Campus and Services Director at the University of Sydney. Alan has extensive experience in the field of Asset Management.

Mika Johannes Toivola - Chief Financial Officer

Mika holds a master's degree in Economics and Accounting and worked in several senior posts as CFO of AlArrab Construction Company, a subsidiary of Al Rajhi Group and served as CFO of the Skanska Group for seven years. Mika has extensive experience in the field of financial management.

Isidro Maria Beccar – Chief Commercial Officer

Isidro holds a bachelor's degree in law from the University of De La Plata in Argentina and has extensive experience in commercial affairs. Isidro's last post was Development Director at Qatari Diar Real Estate Investment Company for four years.

Eng. Badr Eid Al Harbi – Chief Administrative Officer

Eng. Badr holds a MBA degree in Planning & Organizational Management from Cambridge International UK. For the past years Eng. Badr served as General Manager in SBM. Also, before that he served as Director of Group Operation Support Services for Riyadh Cement & Saudi White Cement Companies.

22 Quality Assurance

The Quality Assurance Department is concerned with adopting and establishing Total Quality Management principles, which aim to elevate product and services quality and customer satisfaction. The department's activities focus on establishment, activation and improvement of a Quality Management System which consists of policies and procedures and effective implementation and monitoring of the requirements of international quality management standard ISO9001:2008 and other modern systems for quality management and performance improvement.

Quality Assurance Department achievements in 2014:

- Planned and conducted a complete QMS (Quality Management System) Re-alignment plan.
- Maintained ISO9001 certificate and successfully renewed the current certificate for 3 years.
- Planned and conducted two cycles of Quality Audit Program for all documented QMS procedures.
- Conducted quality awareness and performance improvement training seminars including ISO9001, and Process Mapping.
- Conducted two qualities MRM (Management Review Meetings).

23 Environmental and Social Responsibility

Dar Al-Arkan is fully aware of the importance of meeting its commitments as a national entity by contributing to the sustainable growth of local communities and protection of the environment, where it develops self-sustained integrated communities in consideration of dominant social values and emphasizing the importance of socio-economic, health, security, environmental and cultural factors in the Kingdom. In this regard, the improvement of living standards and the preservation of the environment constitute the main objectives of the Company. It has applied the philosophy of integrated comprehensive development of residential living with public, social, recreational and commercial services and a sustainable healthy environment with lush green landscape, pedestrian-friendly roads to reduce pollution alongside leisure areas, as part of the Company's responsibility to preserve the environment.

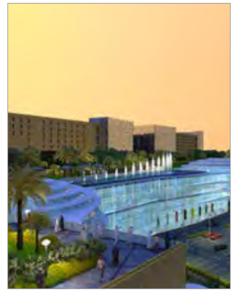
As part of its corporate social responsibility, Dar Al-Arkan is heading towards implementing real estate projects for the improvement of social welfare. One exceptional project is Qasr Khozam in the centre of Jeddah city, which is collaboration between the Company and the relevant government agencies for restructuring the Qasr Khozam area and its surrounding slum neighbourhoods. The project is intended to provide integrated urban living with a healthy and safe environment to create a unique living experience, as well as increasing the economic value of the area to attract more investment opportunities and securing thousands of employment opportunities. Further to its social responsibility, the Company has linked the area of Shams Alarous to Palestine Street by a 52 metre wide and a 4 km long road costing SR 30 million.

Dar Al-Arkan is aware of its social responsibility with regard to issues concerning the real estate sector, through analysis of problems and innovative solutions. In this respect, the most outstanding contribution by the Company has been its participation in workshops for the study of housing solutions with the Ministry of Housing in the Kingdom, which expresses opinions on mortgage regulation issued by the Saudi Arabian Monetary Agency. In addition, the Company participates at exhibitions to support real estate activities as a means of communicating with specialists in the sector and other related sectors to exchange knowledge, expertise and views. This contributes to the development of the real estate sector in the region, in addition to communicating with different social categories and customers to identify their needs. The Company's real estate projects are exhibited to satisfy market requirements and the needs of community members.

Moreover, DAAR spares no effort to support and sponsor different social issues and activities including sponsorship of the World Drug Day under the slogan: "By our awareness we protect our society" organized by the General Directorate of Narcotics Control (GDNC), a reflection of DAAR belief of the importance of raising the awareness of society members of the dangers and effects of and protection from drugs.

Furthermore, the social responsibilities of Dar Al-Arkan is extended to its employees by developing their capabilities and potential, providing them with job security and medical care, securing good lifestyles which create an appropriate work environment that improves productivity and quality of performance.

24 Participation and Sponsorships of Dar Al-Arkan during 2014



24.1 World Drug Day

Dar Al-Arkan Real Estate Development Company (DAAR) sponsored the activities related to 'World Drug Day' under the slogan "By our awareness we protect our community"; which was organized by the General Directorate of Narcotics Control (GDNC). For this, and on behalf of DAAR Chairman Mr. Yousef Bin Abdullah Al Shelash, Dr. Abdulrehman Bin Hamad Al Harkan, DAAR CEO, received an honoring trophy in a special celebration held by GDNC in the Security Forces Officers Club attended by the Director-General of GDNC in Riyadh Region Major General Saud Bin Rashid Al Osaimi, and a number of high officials in the public and private sectors.

24.2 Ramadan Annual Celebration for DAAR Employees

In a Ramadan spiritual atmosphere, and in the presence of its employees, Dar Al-Arkan Real Estate Development Company held its annual IFTAR celebration at Marriott Hotel – Makarem Hall. The ceremony was honored by company's Chairman Mr. Yousef Bin Abdullah Al Shalash, with the attendance of Board directors and executive managers.

24.3 Riyadh Shopping and Entertainment Festival

The organizing committee of Riyadh Shopping and Entertainment Festival 1435H, 2014G selected Alqasr Mall of Dar Al-Arkan to sponsor and hold the opening of the Festival under the auspices of HRH Prince Turki Bin Abdullah Bin Abdulaziz , Governor of Riyadh on Thursday 7th Sha'aban 1435H corresponding to June 5th, 2014.

24.4 The 17th Riyadh Real Estate and Urban Development Exhibition

Dar Al-Arkan participated as the diamond sponsor of the 17th Riyadh Real Estate and Urban Development Exhibition held in Riyadh on 27th April 2014, to showcase its pioneering real estate projects of urban real estate development and its achievements in the finished projects, as well as displaying thoughts and expertise in the real estate market, particularly in the housing sector. DAAR booth was the biggest occupying an area of 600 square meters. Dar Al-Arkan aims to enhance interaction with all categories of the local community.

25 Board Undertakings

In accordance with Item 23 from Article 43 of the CMA listing rules, the Board of Directors undertakes the following:

1) Proper accounting books have been maintained

2) The system of internal control has been effectively implemented

3) There are no significant doubts concerning the Company's ability to continue as a going concern

26 Statement of Regulatory Payments due During 2014

Item	in (Saudi Riyals)	Description	Type of payment
Social Insurance	1,662,776	To be paid as per the rules of GOSI. Paid in full	Regular requirement
Government Charges	991,339	Charges for building licenses, subscription for Chamber of Commerce, fees for work permits, renewal of Iqama and others. Paid in full	Regular requirement
Fines	100,000	For violation of clause (C) of Article (45) of the Capital Market Law. On 28/10/2013, the company revealed data and information to Reuters which are prohibited to be revealed before revealed to CMA and announced by it.	Special requirement
Zakat	10,730,342	Due as per the legitimate rules of Zakat duty and instructions of Dept. of Zakat and Income Tax in Saudi Arabia. Paid in full	Regular requirement
Total	13,484,457		

27 Awards

27.1 Property Company of the Year in the Middle East 2014 by World Finance.

Dar Al-Arkan Real Estate Development Company (DAAR) has been named the “Property Company of The Year Middle East 2014” by World Finance Magazine; the globally recognized periodical specialized in finance and commerce. DAAR has been granted this accolade based on its financial performance, growth and revenue maximization; as well as its leadership in property development and investment fields. In addition to its innovation in developing iconic projects and meeting customer demand in a changing environment and the high quality of services satisfying customers and tenants.

Property Company of The Year Middle East 2014 by World Finance


Corporate Governance Company of The Year MENA 2014 by The European


CSR Company of The Year Saudi Arabia 2014 by The European

First in Saudi Real Estate and Construction Sector on Forbes ME List of the Top 500 Companies in the Arab Countries 2014

Best Residential Developer in Saudi Arabia 2013 by Euromoney

First in Saudi Real Estate Sector on Forbes ME List of the Top 500 Companies in the Arab Countries 2013

Corporate Governance Company of The Year MENA 2013 by The European

Best Corporate Governance in Saudi Arabia 2013 by World Finance


Commercial Project of The Year 2013 (Al-Qasr Mall) by Arabian Business


First RAM-Rated Foreign Entity in the Kingdom of Saudi Arabia by RAM Rating Agency 2013

Best Residential Developer in Saudi Arabia 2012 by Euromoney


The Largest Residential Project in the Kingdom of Saudi Arabia 2011

Financial Statements

Dar Al-Arkan
Real Estate Development Company

The Board of Directors at Dar Al-Arkan Real Estate Development Company is pleased to submit its report on Company's performance and the results of its activities for the fiscal year 2014.

Index

- Auditors' report
- Consolidated balance sheet
- Consolidated statement of income
- Consolidated statement of cash flows
- Consolidated statement of changes in shareholders' equity
- Notes to the consolidated financial statements

Dar Al-Arkan Real Estate Development Company

SAUDI JOINT STOCK COMPANY

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2014

Deloitte.

Deloitte & Touche
Bakr Abulkhair & Co.
Public Accountants
P.O. Box 213
Riyadh 11411
Kingdom of Saudi Arabia

Tel: +966 (0) 11 282 8400
Fax: +966 (0) 11 293 0880
www.deloitte.com

License No. 96
Head Office: Riyadh

AUDITORS' REPORT

To the shareholders
Dar Al Arkan Real Estate Development Company
(A Saudi Joint Stock Company)
Riyadh – Kingdom of Saudi Arabia

Scope of Audit

We have audited the accompanying consolidated balance sheet of Dar Al Arkan Real Estate Development Company (A Saudi joint stock company) (the "Company") and its subsidiaries (collectively referred to as the "Group") as at December 31, 2014, and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended, and notes 1 to 22 which form an integral part of these consolidated financial statements as prepared by the Group in accordance with Article 123 of the Regulations for Companies and submitted to us with all the necessary information and explanations which we required. These consolidated financial statements 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 the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting standards used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified Opinion

In our opinion, the accompanying consolidated financial statements, taken as a whole, present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2014, and the results of its operations and its cash flows for the year then ended in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia appropriate to the nature of the Group, and comply with the relevant provisions of the Regulations for Companies and the Company's bylaws as these relate to the preparation and presentation of the consolidated financial statements.

Deloitte & Touche
Bakr Abulkhair & Co.

Ehsan A. Makhdoum
License No. 358

Deloitte & Touche Bakr Abulkhair & Co.

Rabi Al Awwal 29, 1436H
January 20, 2015

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2014

	Notes	2014	2013
ASSETS		**SR 000**	**SR 000**
Current Assets			
Cash and cash equivalents		**1,135,196**	2,279,132
Short term deposit with banks	(5a)	**1,175,000**	-
Accounts receivable, net	(5b)	**1,747,778**	1,364,297
Prepaid expenses and others	(6)	**816,697**	484,201
Due from a related party	(7 a)	**143**	143
Projects in progress – short-term	(8 a)	**-**	44,529
Developed land – short-term		**794,145**	927,110
Total Current Assets		**5,668,959**	5,099,412
Non-Current Assets			
Projects in progress – long-term	(8 b)	**8,916,056**	8,780,457
Investments in land under development	(9)	**5,445,630**	4,864,302
Developed land – long-term		**1,949,764**	1,936,614
Investment properties, net	(10)	**3,567,451**	2,694,638
Investment in associates	(11)	**763,407**	747,407
Property and equipment, net	(12)	**71,279**	74,370
Deferred charges, net	(13)	**-**	132
Total Non-Current Assets		**20,713,587**	19,097,920
TOTAL ASSETS		**26,382,546**	24,197,332

Managing Director

Chief Financial Officer

The accompanying notes form an integral part of these consolidated financial statements

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2014

LIABILITIES AND EQUITY			
Current Liabilities			
Islamic borrowings – current portion	(14)	**2,148,064**	744,308
Due to a related party	(7 b)	**195,612**	196,246
Accounts payable	(16)	**167,680**	267,098
Accrued expenses and others	(17)	**826,566**	820,242
Total Current Liabilities		**3,337,922**	2,027,894
Non-Current Liabilities			
Islamic borrowings	(14)	**5,458,564**	5,159,269
Provision for end-of-service indemnities	(18)	**18,544**	17,348
Total Non-Current Liabilities		**5,477,108**	5,176,617
Total liabilities		**8,815,030**	7,204,511
Shareholders' Equity			
Share capital	(19)	**10,800,000**	10,800,000
Statutory reserve		**942,384**	884,914
Retained earnings		**5,825,132**	5,307,907
Total Shareholders' Equity		**17,567,516**	16,992,821
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**26,382,546**	24,197,332

Managing Director | Chief Financial Officer

The accompanying notes form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 SR 000	2013 SR 000
Revenues from operations		**3,056,060**	2,931,168
Cost of operations		**(1,756,805)**	(1,778,097)
Gross profit	(4)	**1,299,255**	1,153,071
Operating expenses:			
General, administrative, selling and marketing expenses		**(237,453)**	(151,027)
Depreciation	(12)	**(3,691)**	(4,011)
Amortisation of deferred charges	(13, 14 a)	**(38,197)**	(27,654)
Income for the year from operating activities		**1,019,914**	970,379
Other Income / (expenses) :			
Share of income from investment in associates	(11)	**16,000**	3,250
Islamic Murabaha charges		**(111,282)**	(110,341)
Islamic Sukuk charges		**(382,012)**	(203,618)
Other income / (expenses), net		**46,895**	39,320
Income for the year before Zakat		**589,515**	698,990
Zakat provision	(17 a)	**(14,820)**	(17,528)
Net income for the year		**574,695**	681,462
Earnings per share for the year			
(in Saudi Riyal)	(20)		
From operating activities		**0.94**	0.90
From net income		**0.53**	0.63

Managing Director

Chief Financial Officer

The accompanying notes form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

	2014	2013
	SR 000	SR 000
CASH FLOWS FROM OPERATING ACTIVITIES		
Income for the year before Zakat	**589,515**	698,990
Adjustment for:		
Depreciation	**56,492**	50,499
Amortisation of deferred charges	**38,197**	27,654
Provision for end-of-service indemnities	**2,707**	2,133
Provision for doubtful debts	**9,736**	-
Gain on disposal of property and equipment	**(30)**	-
Share of income from investment in associates	**(16,000)**	(3,250)
Changes in operating assets and liabilities		
Accounts receivable	**(393,217)**	128,452
Prepaid expenses and others	**29,542**	(5,290)
Due from a related party	**-**	-
Projects in progress – short-term	**5,350**	2,173
Developed land	**119,815**	105,049
Accounts payable	**(99,418)**	10,965
Accrued expenses and others	**2,234**	50,424
Cash generated from operations	**344,923**	1,067,799
Zakat paid	**(10,730)**	(61,352)
End-of-service indemnities paid	**(1,511)**	(1,360)
Net cash generated from operating activities	**332,682**	1,005,087

Managing Director

Chief Financial Officer

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

CASH FLOWS FROM INVESTING ACTIVITIES		
Projects in progress – long-term	**(135,599)**	(1,641,872)
Investments in land under development	**(581,328)**	741,328
Advance payments to purchase land	**(362,038)**	153,870
Investment properties	**(886,435)**	(4,066)
Proceeds from disposal of property and equipment	**30**	-
Purchase of property and equipment	**(600)**	(707)
Net cash used in investing activities	**(1,965,970)**	(751,447)
CASH FLOWS FROM FINANCING ACTIVITIES		
Islamic borrowings	**1,664,986**	1,491,576
Short term deposit with banks	**(1,175,000)**	-
Due to a related party	**(634)**	(1,855)
Net cash from financing activities	**489,352**	1,489,721
(Decrease)/increase in cash and cash equivalents	**(1,143,936)**	1,743,361
Cash and cash equivalents, beginning of the year	**2,279,132**	535,771
CASH AND CASH EQUIVALENTS, END OF THE YEAR	**1,135,196**	2,279,132
Non-cash transaction related to transfer of investment property (Note 10)		
Transfer of projects under progress-short-term to investment properties	**39,179**	-

Managing Director

Chief Financial Officer

The accompanying notes form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

Dar Al-Arkan Real Estate Development Company

SAUDI JOINT STOCK COMPANY

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2014

	Share Capital	Statutory Reserve	Retained Earnings	Total Shareholders' equity
2013	SR 000	SR 000	SR 000	SR 000
Balance as at 1 January 2013	10,800,000	816,768	4,694,591	16,311,359
Net income for the year	-	-	681,462	681,462
Transfer to statutory reserve	-	68,146	(68,146)	-
Balance as at 31 December 2013	10,800,000	884,914	5,307,907	16,992,821
2014				
Balance as at 1 January 2014	**10,800,000**	**884,914**	**5,307,907**	**16,992,821**
Net income for the year	**-**	**-**	**574,695**	**574,695**
Transfer to statutory reserve	**-**	**57,470**	**(57,470)**	**-**
Balance as at 31 December 2014	**10,800,000**	**942,384**	**5,825,132**	**17,567,516**

Managing Director

Chief Financial Officer

The accompanying notes form an integral part of these consolidated financial statements

1 GENERAL INFORMATION:

DAR AL-ARKAN REAL ESTATE DEVELOPMENT COMPANY (the "Company"), is a Saudi Joint Stock Company, registered in Riyadh under the Commercial Registration No. 1010160195 dated 16/4/1421H (corresponding to 18/7/2000G).

The Company and its subsidiaries (collectively referred as the "Group") are predominantly engaged in the business of development, sale and lease of real estate projects and associated activities.

The Group operates in general construction of residential and commercial buildings (construction, maintenance, demolition and reconstruction). Below is the nature of business of the Group's subsidiaries:

DAR AL-ARKAN PROPERTIES COMPANY – is a limited liability company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No: 1010254063, dated 25/7/1429H (corresponding to 28/7/2008G). It operates in development and acquisition of commercial and residential real estate. It provides management, operation and maintenance of residential and commercial buildings and public facilities.

DAR AL-ARKAN PROJECTS COMPANY – is a limited liability company, a wholly owned subsidiary, company registered in Riyadh under the Commercial Registration No. 1010247583, dated 28/3/1429H (corresponding to 5/4/2008G). It operates in general construction of residential and commercial buildings (construction, maintenance, demolition and restructuring).

DAR AL-ARKAN COMMERCIAL INVESTMENT COMPANY – is a limited liability company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No. 1010247585, dated 28/3/1429H (corresponding to 5/4/2008G). It operates in purchase and acquisition and lease of real estate investments.

DAR AL-ARKAN SUKUK COMPANY – is a limited liability company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No. 1010256421, dated 16/9/1429H (corresponding to 16/9/2008G). It operates in Real Estate investments and development.

SUKUK AL-ARKAN COMPANY – is a limited liability company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No. 1010274407, dated 11/10/1430H (corresponding to 01/10/2009G). It operates in development, maintenance and management of real estates, purchase of land and general contracting.

THAWABIT INVESTMENT COMPANY– is a limited liability company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No. 1010275449, dated 30/10/1430H (corresponding to 19/10/2009G). It operates in Real Estate investments and development.

DAR SUKUK INTERNATIONAL COMPANY – is a limited liability company, formerly known as Siyada Investment Company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No: 1010275448, dated 30/10/1430H (corresponding to 19/10/2009G). It operates in Real Estate investments and development.

Dar Al-Arkan Real Estate Development Company wholly owns directly and indirectly the above mentioned subsidiaries.

The accompanying consolidated financial statements include the assets, liabilities and the results of operations of the subsidiaries mentioned above.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia issued by the Saudi Organisation of Certified Public Accountants (SOCPA).

2.2 ACCOUNTING CONVENTION

The consolidated financial statements have been prepared on the historical cost basis, using accrual basis and going concern assumption except for commission rate swaps and held for trading investments which are measured at fair value and investments in associates which are accounted for under equity method of accounting.

2.3 BASIS OF CONSOLIDATION

The consolidated financial statements of the Group incorporate the financial statements of the companies and enterprises controlled by the Group (its subsidiaries) made up to 31 December 2014.

Subsidiaries are entities over which the Group has the power to control the financial and operating policies to obtain economic benefit to the Group. Subsidiaries are fully consolidated from the effective date of acquisition up to the effective date of disposal, as appropriate.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets acquired/transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed are initially measured at the fair value at the acquisition date irrespective of the extent of any non-controlling interests. The interests of non-controlling shareholders are stated at the non-controlling proportion of the assets and liabilities recognised. Subsequently, any losses applicable to the non-controlling interests in excess of the non-controlling interests are allocated against the interests of the parent.

The excess of cost of acquisition over the Group's share of identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the carrying value of the identifiable net assets acquired (i.e. discount on acquisition) is recognised directly in the consolidated statement of income.

All intra-group transactions, balances, and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee.

The results, assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting except when classified as held for sale. Investments in associates are carried in the consolidated balance sheet at the Group's share of the net assets of the associate. Losses of the associates in excess of the Group's interests in those associates are not recognised.

Any excess of cost of acquisition over the Group's share of the identifiable net assets acquired of the associate at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any deficiency of the cost of acquisition below the Group's share of the identifiable net assets of the associate at the date of acquisition (i.e. discount on acquisition) is recognised in the consolidated statement of income.

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interests in the relevant associate or joint venture. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment.

2.4 PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost less estimated residual value of assets, other than land, over their estimated useful lives, using the straight-line method, on the following basis:

Buildings	3%
Leasehold improvements	5% - 20%
Vehicles	25%
Machinery and tools	20%
Office equipment	20% - 25%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of income.

At each date of preparation of the consolidated financial statements, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

2.5 REAL ESTATE ASSETS

Real estate assets principally comprise of projects in progress and developed land short term held for sale and long term projects in progress, long term developed land and investment in land under development, including property projects under construction, land projects under development and land waiting for development.

All real estate assets are accounted for at the lower of cost and net realisable value. Cost comprises direct material cost, direct labour costs, borrowing costs and those overheads that have been incurred in bringing the development properties to their present location and condition. Cost is calculated using the average method. Net realisable value represents the estimated selling price less all estimated costs to completion and selling costs to be incurred.

The operating cycle of development properties is such that the majority of the real estate properties will not be realised within 12 months. These have been split between current and non-current properties.

2.6 INVESTMENT PROPERTIES

Investment properties, which are properties held to earn rentals and/or for capital appreciation, are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is charged so as to write off the cost less estimated residual value of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method, on the following basis:

Buildings	3%

Gains or losses arising from the retirement or disposal of investment properties being the difference between the net disposal proceeds and carrying value are included in the consolidated statement of income for the period of the retirement/disposal except those that relate to sale and leaseback arrangements.

2.7 FINANCE CHARGES

Financing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other financing costs are recognised in the consolidated statement of income in the period in which they are incurred.

2.8 FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the Group's consolidated balance sheet when the Group has become a party to the contractual provisions of the instrument.

Accounts receivable

Accounts receivable are initially recognised at transaction value. They are subsequently measured for their realisable value and a provision for impairment is made where there is objective evidence, (including customers with financial difficulties or in default on payments), that amounts will not be recovered in accordance with original terms of the agreement. The carrying value of the receivable is reduced through the use of an allowance account and any impairment loss is recognised in the consolidated statement of income.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and at bank and other short-term deposits held by the Group with maturities of less than three months.

Held for trading investments

Held for trading investments are recognised initially at fair value; transaction costs are taken directly to the consolidated statement of income and thereafter stated at fair value by reference to exchange quoted market bid prices at the close of business on the consolidated balance sheet date. The unrealized and realized gains and losses from sale of held for trading investments are recorded in the consolidated statement of income.

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Financial liabilities include Islamic Sukuk and Islamic Murabaha; these are recorded initially at cost. Direct transaction costs are subsequently carried at their amortised cost and are recognised in the consolidated statement of income over the term of the instrument.

Accounts payables

Accounts payables are initially recognised at cost and subsequently at amortised cost using the effective commission method.

Commission rate swaps

Commission rate swaps are measured at fair value. Fair value is recorded as an asset when the fair value is positive and as a liability when the fair value is negative. The fair value is determined as per the market quoted prices, cash flow discount and pricing methods, as appropriate.

Changes in fair value of commission rate swaps held for trading are recognised directly in the consolidated statement of income, and are included in other income.

2.9 IMPAIRMENT OF TANGIBLE ASSETS

At the date of each consolidated balance sheet, the Group reviews the carrying amounts of its tangible assets for any indication that those assets have suffered impairment losses. When such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Recoverable amount is the higher of realisable value less costs to sell and value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in the consolidated statement of income.

2.10 REVENUE RECOGNITION

Revenue represents the sale of residential properties and land. Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and significant risks and rewards of ownership have been transferred to the buyer. Revenue is measured at the value of consideration received. With respect to rental income, the Group recognises revenue on a straight line basis over the lease term.

2.11 ZAKAT

Zakat is calculated and recognised in the consolidated statement of income for the year and for each financial period separately pursuant to Zakat Regulation in the Kingdom of Saudi Arabia. The provision for Zakat is adjusted in the financial period in which the final assessment of Zakat is issued. Variances between the amount of provision for Zakat as per the consolidated financial statements and the provision as per final assessment issued by the Department of Zakat and Income Tax ("DZIT") are recognised in the consolidated statement of income as changes in accounting estimates and included in the financial period in which the final assessment of Zakat is issued.

2.12 FOREIGN CURRENCIES

Transactions in currencies other than Saudi Riyals, the presentational and functional currency of the Group, are recorded at the rates of exchange prevailing on the dates of the transactions. At each consolidated balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated to Saudi Riyals at the rates prevailing on the consolidated balance sheet date. Non-monetary assets and liabilities that are denominated in foreign currencies are translated to Saudi Riyals at the rates prevailing at the date when the cost was determined.

2.13 STATUTORY RESERVE

According to the article (125) of the Companies' Regulation, the Group retains 10% of net income against the statutory reserve. The Group may stop the deductions when this reserve reaches 50% of the share capital. This reserve is not available for dividend distribution.

2.14 END-OF-SERVICE INDEMNITIES

The Group provides end-of-service benefits to its employees in accordance with the labour law provision of Saudi Arabia. The entitlement to these indemnities is based upon the employee's final salary, length of service and the completion of a minimum service period. The costs of these indemnities are accrued over the period of employment at the rate of the employee's current salary and are paid on cessation of employment.

2.15 RETIREMENT BENEFIT COSTS

The Group makes contributions in line with the General Organisation for Social Insurance Regulations and are calculated as a percentage of employees' wages. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit plan. Payments made to defined contribution retirement benefit plans are charged as an expense as they fall due.

2.16 LEASING

Rentals payable under operating leases are charged to the consolidated statement of income on a straight-line basis over the term of the relevant lease.

2.17 OPERATING EXPENSES

The Group follows accrual basis of accounting to record the operating expenses and recognised as expenses in the consolidated statement of income in the period in which they are incurred. Expenses that are deferred for more than one financial year are allocated to expenses over such periods using historical cost.

3 USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with generally accepted accounting standards requires use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and activities actual result ultimately may differ from those estimate.

4 BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management reporting purposes, management has organized the Group around three divisions which match its entity structure. These are in line with its strategic planning and business model and include DAR Projects, DAR Investments and DAR Properties.

Geographical regions

The Group operates exclusively in Saudi Arabia and all its revenues derive from its portfolio of properties which the Group manages. As such there is no additional geographical information.

Products and services

DAR projects is principally focused on the development of basic infrastructure on undeveloped land and the sale of such land ("Sale of land") and the development of residential and commercial projects for Sale ("Sale of residential properties") or leasing such developed properties to generate rental revenue ("Lease income").

Information in respect of these products is presented below:

	For the year ended 31 December	
	2014	2013
	SR 000	SR 000
REVENUES FROM OPERATIONS		
Sale of residential properties	**8,000**	459
Sale of land	**2,923,431**	2,822,281
Leasing of properties	**124,629**	108,428
Total	**3,056,060**	2,931,168
COST OF OPERATIONS		
Residential properties	**5,240**	363
Land	**1,694,764**	1,731,246
Leasing of properties	**56,801**	46,488
Total	**1,756,805**	1,778,097
GROSS PROFIT		
Residential properties	**2,760**	96
Land	**1,228,667**	1,091,035
Leasing of properties	**67,828**	61,940
Total	**1,299,255**	1,153,071

5 a) SHORT TERM DEPOSIT WITH BANKS

	2014	2013

	SR 000	SR 000
Islamic deposits	**1,175,000**	-
Total	**1,175,000**	-

This represents the Islamic deposits with banks that are maturing on 4 February 2015. These deposits are specifically earmarked for the Sukuk IV repayment due in February 2015.

b) ACCOUNTS RECEIVABLE, NET

	2014	2013
	SR 000	SR 000
Customers	**1,761,993**	1,368,776
Provision for doubtful debts	**(14,215)**	(4,479)
Total	**1,747,778**	1,364,297

Accounts receivable includes about 94% (31 December 2013: 95%) receivables against land sales which are fully secured against such land parcels. Further, it includes a receivable amounting to SR 365 million that is beyond the terms and conditions associated with the contract and the Company believes that the amount is fully recoverable in the due course.

6 PREPAID EXPENSES AND OTHERS

	2014	2013
	SR 000	SR 000

Advance payments to purchase land	**771,438**	409,400
Prepaid expenses and other assets	**21,713**	39,564
Accrued income	**-**	14,624
Advance payments to contractors	**12,003**	12,308
Employees' advances and receivables	**5,865**	5,780
Short term investment- trading (note 6a)	**3,181**	-
Advance payments to suppliers	**2,461**	2,487
Positive value of commission rate SWAP (note 15)	**-**	2
Others	**36**	36
Total	**816,697**	484,201

a) Short term investment – Trading

The group has an investment, classified as held for trading, through portfolio management account with a leading Saudi Asset Management broking institution ("fund manager') and as per the portfolio management agreement the fund manager is allowed to trade in debt and equity securities on behalf of the Group. The transaction during the year is detailed below:

	For the year ended 31 December	
	2014	**2013**
	SR 000	**SR 000**
Purchased / sold during the year	**2,360**	-
	2,360	-
Realised gains	**2,462**	-
Commissions	**(141)**	-
Total	**4,681**	
Transfers/withdrawals	**(1,500)**	-
Balance, end of the year	**3,181**	-

Investment includes SR 3.2 million as at 31 December 2014 (31 December 2013 SR nil) representing cash deposit held with the fund manager. The funds are expected to be invested in the subsequent periods.

7 RELATED PARTY TRANSACTIONS

The significant transactions and balances with related parties are as follows:

a) Due from a related party

The details of the transactions with Saudi Home Loans are as follows:

	For the year ended 31 December	
	2014	**2013**
	SR 000	**SR 000**
Balance, beginning of the year	**143**	143
Expenses incurred	**50**	-
Collections	**(50)**	-
Balance, end of the year	**143**	143

b) Due to a related party

Management of Khozam Real Estate Development Company (KDC), which is an associate of the Group, requested the Group to invest its excess cash balance at a nominal profit. The details of the transactions are as follows:

	For the year ended 31 December	
	2014	**2013**
	SR 000	**SR 000**
Balance, beginning of the year	**196,246**	198,101
Repayment of advances	**(1,854)**	(3,815)
Profit charged	**1,220**	1,960
Balance, end of the year	**195,612**	196,246

c) Other related party transactions

(i) Bank Alkhair B.S.C

The Group engaged Bank Alkhair B.S.C, a non-associate entity, to provide general financial advisory, Shariah' compliance advises and management support for the recent international Sukuk. The details of the transactions, included in accounts payable (refer to note: 16), are as follows:

	For the year ended 31 December	
	2014	2013
	SR 000	SR 000
Balance, beginning of the year	1,296	-
Fees and expenses charged during the year	-	6,733
Amounts paid during the year	(1,181)	(5,437)
Balance, end of the year	115	1,296

(ii) Alkhair Capital Saudi Arabia

The Group engaged Alkhair Capital Saudi Arabia, an associate entity, to provide general financial advisory, representing and filing the documents on behalf of the Group for requirements with CMA and other statutory bodies, Shariah' compliance reviews and management support for the recent international sukuk issuances and the partial pre-closure of Sukuk III and leasing/ subleasing of properties. The details of the transactions are as follows:

	For the year ended 31 December	
	2014	2013
	SR 000	SR 000
Fees, and expenses indirectly transacted during the year	-	1,406
Fees, lease rentals charged during the year	4,000	-
Amount paid/settled during the year	(4,000)	(1,406)
Balance, end of the year	-	-

For the year ended 31 December 2014 and 2013, no other transactions were entered with entities that have common Board Members or Shareholders to the Group.

8 PROJECTS IN PROGRESS

a) Projects in progress – short-term:

	2014	2013
	SR 000	SR 000
Residential and commercial development	-	44,529
Total	-	44,529

Short-term projects in progress represent costs incurred on projects executed by the Group for the purpose of re-sale in the short term.

b) Projects in progress – long-term:

	2014	2013
	SR 000	SR 000
Residential and commercial development	**2,168,456**	2,718,238
Land development projects	**6,747,600**	6,062,219
Total	**8,916,056**	8,780,457

Long-term projects in progress represent residential projects and land owned by the Group, which will not be completed within the next twelve months and are held for future revenue generation.

During the year, the Group's management capitalised Islamic Sukuk charges in the amount of SR 33.32 million (31 December 2013: 88.54 million) under projects in progress.

9 INVESTMENTS IN LAND UNDER DEVELOPMENT

This represents the Group's co-ownership in land with third parties according to contracts, required for land development. The amount includes SR 364.5 million (2013: nil) as advance paid against new project.

10 INVESTMENT PROPERTIES, NET

	For the year ended 31 December	
	2014	2013
	SR 000	SR 000
COST		
At beginning of the year	**2,788,535**	2,784,469
Transfers	**39,179**	-
Additions	**886,435**	4,066
At end of the year	**3,714,149**	2,788,535
ACCUMULATED DEPRECIATION		
At beginning of the year	**93,897**	47,409
Charged during the year	**52,801**	46,488
At end of the year	**146,698**	93,897
CARRYING AMOUNT AT THE END OF THE YEAR	**3,567,451**	2,694,638

Included within investment properties is land with an original cost of SR 578.1 million (31 December 2013: SR 578.1 million).

11 INVESTMENT IN ASSOCIATES

This represents investment in shares of the companies that are not publicly traded. The Group's ownership in these companies ranges from 15% to 51%. Movement in investment in associates is as follows:

	For the year ended 31 December	
	2014	2013
	SR 000	SR 000
Balance, beginning of the year	**747,407**	744,157
Share of income	**16,000**	3,250
Balance, end of the year	**763,407**	747,407

a. Summarised details of holding in respect of the Group's associates is set out below:

Name of the entity	Amount invested	% of Holding
	SR 000	
Saudi Home Loans	120,000	15%
Alkhair Capital Saudi Arabia	102,000	34%
Khozam Real Estate Development Company (i)	525,547	51%
Accumulated share of profit, net	15,860	
Balance, end of the year	763,407	

Details of transactions with associates are disclosed under Note 7 "Related Party Transactions" of these consolidated financial statements.

(i) The Group had invested 51% in Khozam Real Estate Development Company (KDC), with Jeddah Development and Urban Regeneration Company (JDURC). As per the arrangements the power to govern the financial and operating activities which affect the returns of KDC is jointly bestowed with the shareholders, accordingly the Group does not have any right to variable returns or absolute power to control with the ability to affect the returns of the investee company, consequently the Group's investment in KDC is accounted for as investment in associates under equity method of accounting.

(ii) The KDC investment include SR 250 million as an exclusive right to participate in the Khozam project development and SR 276 million as capital contribution fully paid in cash. The other shareholder (JDURC) contributed SR 265 million worth of land as capital contribution. The management believe that the there is no diminishing in the value of the total investment.

12 PROPERTY AND EQUIPMENT, NET

Details of cost, accumulated depreciation and net book value of property and equipment are as follows:

	Land and Buildings	Leasehold improvements	Vehicles	Machinery and tools	Office Equipment	Total
	SR 000	SR 000	SR 000	SR 000	SR 000	SR 000
Cost						
Balance at 1 January 2014	**109,145**	**19,037**	**9,250**	**13,536**	**40,118**	**191,086**
Additions for the year	**-**	**-**	**-**	**-**	**600**	**600**
Disposal for the year	**-**	**-**	**(114)**	**-**	**-**	**(114)**
Balance at 31 December 2014	**109,145**	**19,037**	**9,136**	**13,536**	**40,718**	**191,572**
Accumulated Depreciation						
Balance at 1 January 2014	**36,091**	**18,970**	**9,248**	**13,442**	**38,965**	**116,716**
Depreciation for the year	**3,016**	**63**	**-**	**37**	**575**	**3,691**
Disposal for the year	**-**	**-**	**(114)**	**-**	**-**	**(114)**
Balance at 31 December 2014	**39,107**	**19,033**	**9,134**	**13,479**	**39,540**	**120,293**
Net book value 31 December 2014	**70,038**	**4**	**2**	**57**	**1,178**	**71,279**
Net book value 31 December 2013	73,054	67	2	94	1,153	74,370

Included within land and buildings are land with an original cost of SR 9.50 million (31 December 2013: SR 9. 50 million).

13 DEFERRED CHARGES, NET

The movement during the year is as below:

	For the year ended 31 December	
	2014	2013
	SR 000	SR 000
Balance, beginning of the year	132	264
Amortisation charge for the year	(132)	(132)
Balance , end of the year	-	132

14 ISLAMIC BORROWINGS

	2014	2013
	SR 000	SR 000
Islamic Sukuk	5,835,638	4,600,000
Islamic Murabaha	1,878,780	1,389,321
	7,714,418	5,989,321
Less: Un-amortised transaction costs	(107,790)	(85,744)
Islamic borrowings – end of the year	7,606,628	5,903,577
Less: Islamic borrowings – current portion	(2,148,064)	(744,308)
Islamic borrowings - long-term	5,458,564	5,159,269

(a) Islamic borrowings transaction costs:

	For the year ended 31 December	
	2014	2013
	SR 000	SR 000
Balance, beginning of the year	**85,744**	55,962
Additions during the year	**61,764**	63,068
Capitalisation during the year	**(1,653)**	(5,764)
Amortisation charge for the year	**(38,065)**	(27,522)
Balance, end of the year	**107,790**	85,744

Analysis of borrowings:

Islamic Sukuk

This represents SR 6 billion of Islamic Sukuk comprising:

1) SR 1.69 billion (USD 450 million) of Islamic Sukuk carried in the books of the Group, issued by Dar International Sukuk Company II at 10.75% and maturing in 2015 of which SR 164.4 million (USD 43.83 million) bought back during 2014 resulting an outstanding of SR 1.523 billion (USD 406.17 million) as at 31 December 2014.

2) SR 1.69 billion (USD 450 million) of Islamic Sukuk carried in the books of the Group, issued by Dar Al-Arkan Sukuk Company Ltd. at 5.75% and maturing in 2018.

3) SR 1.12 billion (USD 300 million) of Islamic Sukuk carried in the books of the Group, issued by Dar Al-Arkan Sukuk Company Ltd. at 5.75% and maturing in 2016.

4) SR 1.50 billion (USD 400 million) of Islamic Sukuk carried in the books of the Group, issued by Dar Al-Arkan Sukuk Company Ltd. at 6.5% and maturing in 2019.

Islamic Sukuks listed above are denoted in US dollars. Since the Saudi Arabian Riyal is limited to fluctuations in the US Dollar there is no exposure to foreign exchange risk. The investment profit is payable to the Saudi SPV, through which the Sukuk was issued, by the sale of properties owned by the Group. The beneficiary rights of these properties are with Dar Al Arkan Real Estate Development Company and its subsidiaries with the rights to buy back the ownership of these properties upon the full repayment of the Sukuk. The Group has issued a corporate guarantee to the Sukuk holders. The facility due in 2015 has index linked commission rate swap arrangements which effectively reduce the fixed rate commission (Note 15).

The Sukuk agreements include financial covenants, which the Group was in compliance with as at 31 December 2014.

Islamic Murabaha

This represents the bilateral Murabaha facilities from local and international commercial banks, secured against certain real estate properties, in the form of Islamic Murabaha, letters of guarantee and letters of credit. These facilities comprise of long- term and short- term tenures ranging from 6 months to 4 years with various repayment schedules like annual roll revolvers, bullet payments and installment repayments ranging from quarterly and half yearly as detailed below.

Summary of the Murabahas:

Maturity date	Outstanding Balance SR 000	Short-term SR 000	Long-term SR 000
2015	**88,477**	**88,477**	**-**
2016	**362,917**	**190,834**	**172,083**
2018	**1,427,386**	**356,704**	**1,070,682**
TOTAL	**1,878,780**	**636,015**	**1,242,765**

The facility agreements include certain financial covenants, which the Group was in compliance with as at 31 December 2014.

15 COMMISSION RATE SWAP

The Group, through a shari'ah compliant arrangement, agreed to exchange fixed rate commission liability with floating rate commission amounts, calculated on agreed notional principal amounts. In July 2012, the group replaced its existing commission rate swap with two new index linked swap facilities for a notional amount of SR 843.75 million (US$ 225 million) each, maturing on 18 February 2015 whereby the counter party banks shall periodically calculate the floating commission rate based on their respective and designated index performance for the period and settle the differential amounts, if any with respect to the original fixed rate of the commission applicable for the securities at semi-annual basis. The index performance is capped at 10.75% and 12.55% respectively for this index linked swap facilities.

During October 2013, considering the steady upward change of commission rate and to avoid losses, the Group had cancelled and closed one of its index linked commission rate swap capped at 12.55%.

The cumulative fair value of this agreement which does not qualify for hedge accounting in accordance with generally accepted accounting standards amounted to SR nil (USD nil) (31 December 2013: SR (2.0) thousand (USD (0.5) thousand). The change in the fair value during the year amounting to SR 2.0 thousand (USD 0.5 thousand) has been recognised as other expense in the consolidated statement of income (SR 10.03 million (USD 2.67 million) for the year ended 31 December 2013).

16 ACCOUNTS PAYABLE

	2014	2013
	SR 000	**SR 000**
Contractors	**146,075**	157,435
Suppliers (a)	**14,020**	28,494
Advances from customers	**7,283**	81,169
Others	**302**	-
Total	**167,680**	267,098

(a) Suppliers include SR 115K, balance due to a related party (refer Note 7c (i)).

17 ACCRUED EXPENSES AND OTHERS

	2014	2013
	SR 000	SR 000
Zakat provision (c)	**604,335**	600,245
Islamic Sukuk charges	**83,007**	84,579
Unearned revenue	**67,394**	68,399
Dividend payable	**35,397**	35,749
Islamic Murabaha charges	**20,521**	17,437
Accrued expenses	**15,912**	13,833
Total	**826,566**	820,242

Zakat provision

a) The principal elements of the Zakat base are as follows:

	2014	2013
	SR 000	SR 000
Zakat base:		
Share capital and statutory reserve – beginning of the year	**11,684,914**	11,616,768
Provisions – beginning of the year after deduction of amounts paid during the year	**589,515**	582,717
Adjusted net income for the year – Note 17/b	**592,222**	701,123
Retained earnings after dividends	**5,307,907**	4,694,591
Islamic Murabaha	**451,394**	734,689
Islamic Sukuk	**2,812,500**	1,687,500
Total Zakat base	**21,438,452**	20,017,388
Deductions:		
Total deduction after adjustment	**(22,279,170)**	(20,434,430)
Zakat base	**(840,718)**	(417,042)
Estimated Zakat provision for the year	**14,820**	17,528

b) Adjusted net income for the year:

	2014	2013
	SR 000	SR 000
Adjusted net income:		
Income for the year before Zakat	**589,515**	698,990
Provisions	**2,707**	2,133
Adjusted net income	**592,222**	701,123

c) The movement in provision for Zakat is as follows:

	For the year ended 31 December	
	2014	2013
	SR 000	SR 000
Balance beginning of the year	**600,245**	644,069
Estimated Zakat for the year	**14,820**	17,528
Paid during the year	**(10,730)**	(61,352)
Estimated Zakat provision, end of the year	**604,335**	600,245

a) The Company has received the assessments from DZIT for the years 2003 to 2009 and has filed an objection for the years 2008 and 2009 which is issued with an additional zakat liability. The basis for this additional liability is being formally contested by the Company and is awaiting a response from DZIT. The management believes that the ultimate outcome of the appeals filed and actions taken by the Company cannot be determined reliably at this stage, however, the carrying provisions are sufficient to meet any additional liability, if required. The Company has not received DZIT assessment for year 2010 and 2011. The filing of the consolidated zakat return for year 2012 and 2013 is currently under process.

18 PROVISION FOR END-OF-SERVICE INDEMNITIES

This item represents the balance of provision for end-of-service indemnities and the movement during the year is as below:

	For the year ended 31 December	
	2014	2013
	SR 000	SR 000
Balance, beginning of the year	**17,348**	16,575
Charged to expenses during the year	**2,707**	2,133
Paid during the year	**(1,511)**	(1,360)
Balance, end of the year	**18,544**	17,348

19 SHARE CAPITAL

The Company has one class of 1,080,000,000 authorised, issued and fully paid ordinary shares of SR 10 each, which carry no right to fixed income.

20 EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	For the year ended 31 December	
	2014	2013
	SR 000	SR 000
Earnings		
For the purpose of basic earnings per share:		
Income for the year from operating activities	**1,019,914**	970,379
Net income for the year	**574,695**	681,462
Number of shares	**Number**	**Number**
Weighted average number of ordinary shares		
For the purpose of basic earnings per share	**1,080,000,000**	1,080,000,000

There is no dilution of ordinary shares and as such the basic and diluted earnings per share calculation are consistent.

21 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments comprise of financial assets and financial liabilities. Financial assets consist of bank balances and cash, due from related parties and trade and other receivables. Financial liabilities consist of trade accounts payable, accruals, due to a related party and Islamic borrowings.

Credit Risk

Credit risk is the risk of financial loss to the Group if counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's bank balances, due from related parties and trade and other receivables.

Cash balances are deposited with a number of major high credit rated financial institutions and has a policy of limiting its balances deposited with each institution.

Trade and other receivables are subject to "No Credit" terms, but in some cases there are enhanced payment schedules or staggered payment request by selected customers which have been accommodated. In such cases the Group has an exposure of credit risk with respect to the amount due from those customers. However, in such cases the Group holds back the final delivery or possession of the property to mitigate the risk until the full amount due is paid to the satisfaction of the contract. The monitoring and follow up of balances is completed regularly and as a result the Group's exposure to losses is limited with appropriate allowances for uncollectible amounts, whenever it's needed.

Commission Rate Risk

Commission Rate Risk is associated with a change in the commission rate available when renegotiating financial instruments that are influenced by the current global financial market conditions. The Group is exposed to commission rate risk with respect to its floating commission covenants agreed for its long term Islamic Murabaha (revolving credit) facilities obtained from local banks.

The short term revolving borrowings' rates are renegotiated at every renewal proposal to achieve the best possible commission rate to reflect the given financial credentials and related risk perception of the Group.

The Group has a specific shariah' complaint commission rate swap contract to manage its commission rate risk. The Group's international borrowing commission rates are primarily based on LIBOR and its local borrowings are based on SAIBOR. Hence the commission exposure of the Group is variable according to the changes in the LIBOR and SAIBOR.

Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in realizing assets or otherwise raising funds to meet commitments associated with financial instruments.

The liquidity risk is closely monitored through regular review of available funds and the cash flows from asset realizations against present and future commitments.

Foreign Currency Risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange values.

Management monitors fluctuations in foreign currency exchange rates, and believes that the Group is not exposed to significant currency risk since the Group's functional currency is the Saudi Riyal, in which the Group transacts, which is currently fixed, within a narrow margin, against the U.S. dollar.

Fair value of financial instruments

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 consolidated financial statements are prepared under the historical-cost convention, differences can arise between the book values and fair-value estimates. Management believes that the fair values of the financial assets and liabilities are not materially different from their carrying values.

22 COMMITMENTS

As at 31 December 2014, the Group has contract commitments which represent the value of the part not yet executed from the projects development contracts amounting to SR 81 million (31 December 2013: SR 85 million), and performance commitment through a bank guarantee for SR 74 million against receivable collected (31 December 2013: SR 74 million).

Head Office

Riyadh-Al-Ma'ather Road
Kingdom of Saudi Arabia

Tel: +966 11 2061100
+966 11 2069888
Fax: +966 11 2061898
P.O.Box: 105633 Riyadh 11656

Makkah Al-Mukaramah
Southern Al-Aziziah

Tel: +966 12 5564364
Fax: +966 12 5566607

Jeddah
King Fahad Road-Alsiteen Street

Tel: +966 12 6068530
Fax: +966 12 6068730
P.O.Box: 23393 Jeddah 21426

Al Madinah

Tel: +966 14 8640000
Fax: +966 14 8640555

Toll No: 800 123 3333

ir@alarkan.com

www.alarkan.com

Head Office
Riyadh-Al-Ma'ather Road
Kingdom of Saudi Arabia
Tel: +966 11 2061100
+966 11 2069888
Fax: +966 11 2061898
P.O.Box: 105633 Riyadh 11656

Makkah Al-Mukaramah
Southern Al-Aziziah
Tel: +966 12 5564364
Fax: +966 12 5566607

Jeddah
King Fahad Road-Alsiteen Street
Tel: +966 12 6068530
Fax: +966 12 6068730
P.O.Box: 23393 Jeddah 21426

Al Madinah
Tel: +966 14 8640000
Fax: +966 14 8640555

800 123 3333
ir@alarkan.com
www.alarkan.com