

ANNUAL REPORT 2015

Dar Al-Arkan Real Estate Development Company



دار الأركان
DAR AL-ARKAN

حياة
BUILT FOR LIFE



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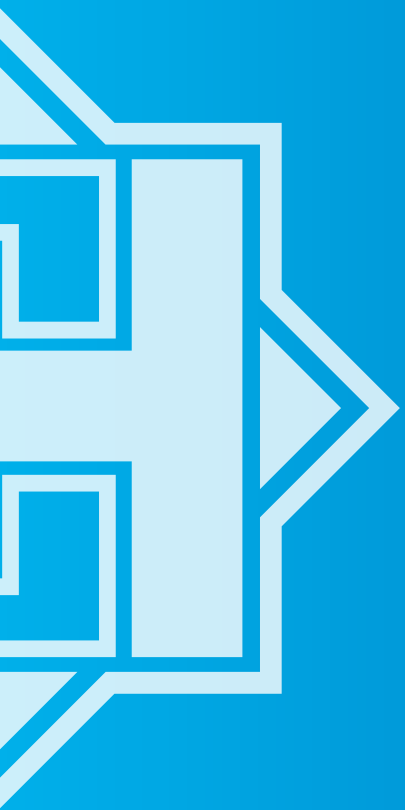
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King

Salman bin Abdulaziz Al Saud

Custodian of The Two Holy Mosques



Crown Prince

Mohammed bin Naif bin Abdulaziz Al Saud

Deputy Premier, Minister of Interior and Chairman of the Council of Political and Security Affairs



Deputy Crown Prince

Mohammed bin Salman bin Abdulaziz Al Saud

Second Deputy Prime Minister, Minister of Defense and Chairman of the Council of Economic Affairs and Development



Members of the Board





Yousef A. Al Shelash

Chairman



Abdullatif A. Al Shelash

Managing Director



Hathloul S. Al Hathloul

Member of the Board



Khalid A. Al Shelash

Member of the Board



Tariq M. Al Jarallah

Member of the Board



Majed R. Al Romi

Member of the Board



Majed A. Al Kasem

Member of the Board



Abdulaziz A. Al Shelash

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

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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 Shares
Value of Share:	SAR 10
Head Office:	Riyadh - Al-Ma'ather

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





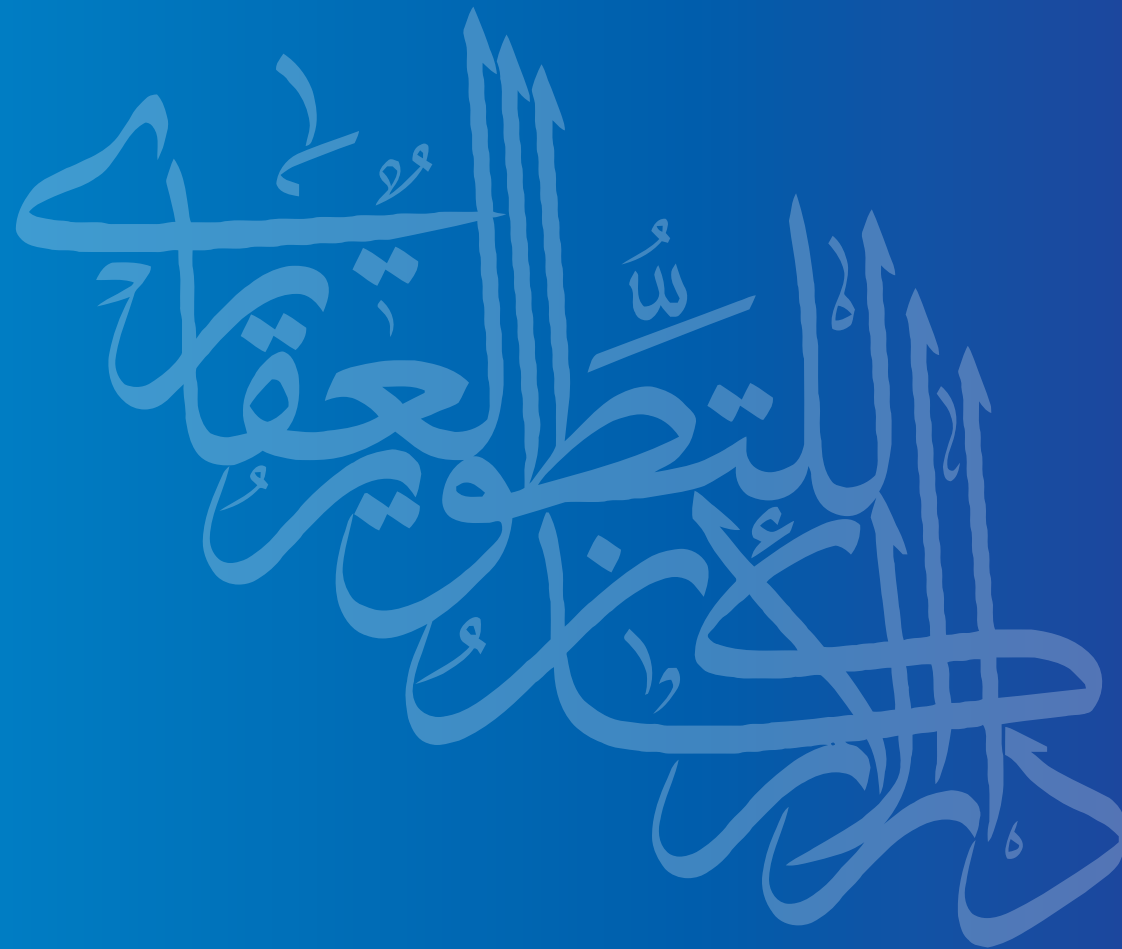
Our Vision

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.

Message from the Chairman



On behalf of the Board of Directors, I am pleased to introduce the annual report of the Dar Al-Arkan Real Estate Company (DAAR) for the year 2015. It is another year in which Dar Al-Arkan continues to lead the real estate sector thanks to DAAR's assets of the distinctive land bank in strategic locations, the development projects and the careful management of such assets. Leading the real estate sector made us always responsible for maintaining such position. And being on the top requires more innovative and creative efforts in a market witnessing a series of difficult circumstances, especially the fluctuations experienced by the real estate sector during the year which led to an unprecedented recession. The year 2015 has seen a sharp decline in purchasing, selling, financing and developing activities for several reasons.

The anticipation of the land fees law approved by the Cabinet, the strict implementing regulations of the new mortgage financing legislation and the oil price dip, in addition to the continuous problem of approving permits, all led to slow down the GDP growth, reduce the government expenditure and overall liquidity.

For their part, Dar Al-Arkan remains committed to their revealed strategy which aims at diversifying the income sources and reducing the revenue's amount out of land sales. Such approach will further enhance the Company's capability of better utilizing the actual value of their property when sold, and achieving profit increase with stable rates, as well as reducing the risks that the Company is exposed to.

At Dar Al-Arkan, we believe that crises are always coming with many opportunities. Here we are seeing serious measures being taken to adjust and expand the foundations of the Saudi economy and diversify its resources to be prepared for a long-term scenario of oil price drop. Inevitably, this restructuring process will leave an impact on the real estate market in the long term and will make it more flexible than ever before, hence enabling the private sector to take active part in the economic development of the country and gradually give up the total reliance on the government sector.

On the other side, all indicators are still showing that the demand for housing projects will increasingly grow in Saudi Arabia. The decrease in household size along with the continuing desire to own housing, will support the demand for housing and ensure that the residential



Yousef A. Al Shelash
Chairman of the Board of Directors

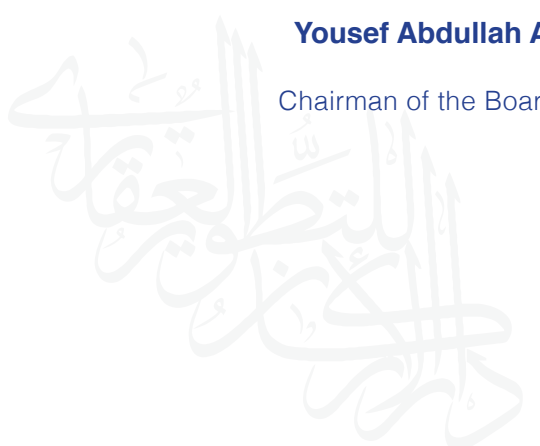
properties will remain an attractive investment in 2016. Although the government expenditure was reduced in some sectors; yet the significant government support for housing will continue through the Ministry of Housing, which works hard to create joint venture development opportunities with private sector developers. The Real Estate Development Fund will also expand the housing finance to Saudi citizens and developers as well as introducing gradual amendments of the facilities provided by the mortgage lender.

It is worth mentioning here that the Company's organization structure received a positive push during 2015 by attracting outstanding talents in line with the best globally recognized practices. The company has also adopted a plan to make changes to develop the organizational structure of the company so as to give a space for expansion both vertically and horizontally. The change is meant to enable the company launching more comprehensive services, achieving more diverse growth and creating a better work environment to allow staff pays their full attention and care to all Company customers. To that end, the Company has provided all the necessary means of measuring the employee's performance within a general framework policy that motivate them and make reflections in the key performance indicators. Such changes will gradually take effect during the year 2016 in an effort towards achieving the Company's business objectives and operational strategy.

Finally; I would like to extend my sincere thanks to my fellow board members for their strenuous efforts and proposed constructive ideas. Thanks go to the colleagues in the executive management and our dedicated staff who have done everything in their power to serve the company. I would also like to extend all the thanks and appreciation to our valued customers and shareholders for their precious trust, praying to Allah Almighty to help us all for the greater good; Excellent is the protector, and Excellent is the helper.

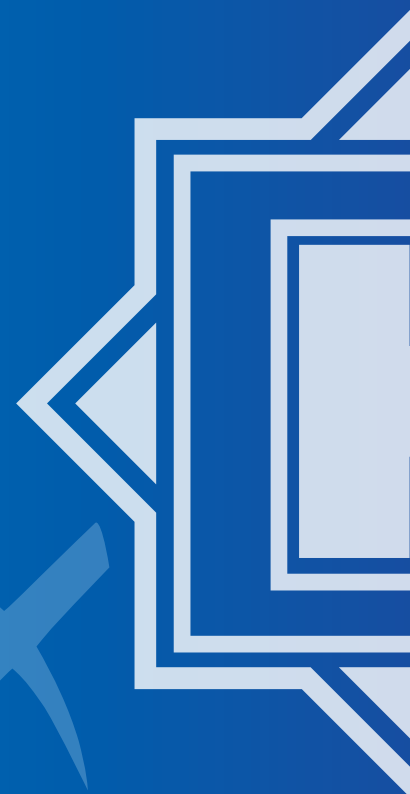
Yousef Abdullah Al Shelash

Chairman of the Board of Directors



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Board of Directors Report



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Dar Al-Arkan Real Estate Development Company

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 the report of the Company's performance and activities results for the fiscal year 2015.



1 BOD's strategic review for 2015

1-1 Introduction – Dar Al-Arkan remains sector leader despite market headwinds

2015 was a year of significant macro-economic change for the Saudi Arabian market, with a sharp and sustained decline in the oil price of 34%, consideration on how to begin diversifying the country's economy into sectors other than oil related activities and initiatives on the introduction of a "white land tax" in respect of undeveloped land. Equally, 2015 saw the much-awaited opening up of the country's equity market to qualifying foreign institutions (QFIs), which is expected over the longer term to bring about a step change in levels of foreign investment by high quality, international investment institutions in the country's listed companies. Against this backdrop and despite the equity market weakness caused by operational, regulatory and economic challenges, ongoing uncertainty about the macro-economic outlook and government spending policy, Dar Al-Arkan Real Estate Development Company (DAAR) retained its leading position in the Saudi real estate sector as a result of its high quality land portfolio, strategic development projects and strong asset management.

In 2015, market challenges arising during the year have affected the Company's land sales and therefore caused revenues and profits to be lower than originally forecast, which is disappointing. These challenges included concerns over land fees, the mortgage law which introduced more stringent regulations in respect of new mortgages for housing and consequently are holding back significant mortgage uptake as well as a marked decline in land transactions. Also, there have been changes in the Government's approach to the market in terms of strategic direction via the Ministry of Housing (MOH). The resulting lower volumes in land transactions are reflected in lower earnings per share, which amounted to SR 0.33 (2014: SR 0.53).

1-2 Continued progress with diversification strategy

DAAR remains committed to its strategy of diversifying revenue within its business and reducing the weighting of land sales. This will enhance value creation from owned land, increase earnings visibility, create smoother earnings delivery and reduce the Company's financial risk profile. As previously announced, the target is for an asset split of 50/35/15% between land, leasing, and residential & commercial development in the medium term. The ratio in 2015 was 70/17/13%.

DAAR has a very sizeable high quality, strategic land bank in key growth areas of the Kingdom and continues to acquire land when favorable opportunities arise, as well as investing in land already retained to enhance its value through infrastructure development. DAAR is also well positioned to leverage opportunities in the future when market conditions improve and is committed to achieving a continued balance of acquiring attractive land, whilst managing cash flow effectively to retain balance sheet discipline and plan for future Sukuk repayments.

Looking ahead, gated communities and residential units will provide significant opportunities for further growth in leasing revenue.

1-3 Retaining competitive advantage through new opportunities-development services

DAAR's capability to design and deliver high quality prestige master plan developments has prompted the Company to participate as a bidder in multiple master plan development opportunities initiated by Government ministries and organizations such as MOH, Ministry of Defense and Aviation (MODA), General Authority of Civil Aviation (GACA), Public Investment Fund (PIF) and private entities during the year. Demand for development services or direct participation in developments have arisen from the need for the Government and others to utilize land for residential and mixed use purposes and to employ DAAR as the leading developer in the country to manage these developments on behalf of land owners.

1-4 Enhancing organizational structure and optimizing the company's talent in line with best practice

During 2015, a plan for change was initiated to improve the Company's organizational structure to create more potential for vertical and horizontal expansion, to produce a more comprehensive service offering, achieve economies of scale and other cost efficiencies as well as to create better customer focus through industry dedicated business lines. These changes will gradually take place in 2016 thus improving management structure, reporting lines, and a strengthening of management expertise through selective recruitment to ensure DAAR's management reflects its leading position in the Saudi real estate sector. We are focused on attracting and retaining the best talent in order to drive the Company's long-term growth. During the year, DAAR successfully reorganized its compensation structure to match Saudi Arabian industry standards as well as introduced new Key Performance Indicators (KPIs) to measure employee performance as a basis for compensation and to drive strategic and operational business goals.





1-5 Challenging outlook for 2016 but underlying demand drivers intact

The overall economic outlook for 2016 continues to be challenging owing to the declining oil price and reconsideration of the country's balance of payments. The tough economic environment, postponement of projects and Government cost cutting measures are likely to make investors more cautious about committing to land investments in 2016, thus reducing the overall desirability of land as an investment asset. However, systemic demand for housing remains a constant in Saudi Arabia, as household sizes decrease and the desire for home ownership continues. These factors will continue to underpin demand and ensure residential real estate continues to be an attractive market segment in 2016. Furthermore, despite reduced Government spending in some areas, there continues to be investment in infrastructure and significant support for housing in the form of MOH co-development opportunities with private developers, the Real Estate Development Fund (REDF) extending residential funding to Saudi citizens and developers and gradual improvements in the mortgage lending environment in the form of relaxed regulation.

The combination of these factors means we must remain focused on delivering our strategy and address the near-term challenges, secure in the knowledge that the longer-term potential for the Saudi real estate market remains compelling.

2 BOD's operational review for 2015

2-1 Operational backdrop

2-1-1 Key government and market initiatives affecting the real estate sector in 2015

Against a backdrop of significant macro-economic challenges in 2015, a number of positive developments were seen which will strengthen the fundamentals of the sector and facilitate greater housing activity going forward.

The ongoing MOH efforts should create a more favorable environment for developers to play a key role in solving the housing shortage in Saudi Arabia. As the largest developer in Saudi Arabia, DAAR has significant potential to develop housing in the country and therefore participate in numerous discussions to support new initiatives by the MOH. Most notably, DAAR submitted proposals to the MOH to develop a significant quantity of affordable housing units from its development portfolio in line with the MOH strategy.



The consolidation of REDF into the MOH with its enhanced financial capacity should pave the way for better funding of both developers and purchasers of residential projects in the future.

To address continued stringent Loan-to-Value (LTV) requirements from Saudi Arabian Monetary Fund (SAMA) and their effect on mortgage lending, land trading and house purchases, key market participants including DAAR have made proposals to SAMA to relax or modify mortgage regulations, by for example increasing LTV requirements and allow bank lending to resume.

2-1-2 White land fees

In 2015, the Government introduced proposed fees on undeveloped land which has affected the land trading business in 2015 owing to initial uncertainty as to the extent of the impact of the fees and their likely effect on land. The focus of the fees is on land plots which are for residential use within urban areas, those which have been held for substantial periods of time and remain undeveloped, and those provided with municipal services such as roads and utilities. It is unlikely DAAR will be exposed to land fees as the current land portfolio is either fully developed and for sale, under development with infrastructure being built or is purely raw land with few municipal services.

2-1-3 Attractive fundamentals

Despite the short term volatility in the market, the longer term outlook for the residential real estate sector continues to be very attractive in Saudi Arabia driven by favorable demographics and a supportive legislative backdrop (favorable mortgage laws, Government support and supportive MoH policies with the private sector).

2-2 Company performance

2-2-1 Overall sales impacted by weaker volumes

DAAR revenues were affected by lower transaction volumes in the market and therefore fell below previous years to SR 2,211 million (2014 SR 3,056 million) .However, the Company's strong financial discipline and selective approach to land disposals with better margins have contributed to a minor decrease in the net profit margin from 18,8% in 2014 to 16,2% in 2015.





2-2-2 Land Trading: 3.4 million square meters development land sold, but focus on development

DAAR continues to be the biggest land developer in the country with the large stand highest quality land bank in Saudi Arabia. Despite challenging market conditions, DAAR sold 3.4 million square meters of residential mixed-use land to its clients delivering profitable margins.

Significant investment to develop land continued across the land portfolio, but the addition of new land to the portfolio was very selective focusing only on quality. DAAR was therefore a net seller of land in 2015.



2-2-3 Properties : 726,000 square meters leasable assets under management

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

One of the key drivers of growth has been the increased focus on the Corporate and Government sectors. DAAR is experiencing significant demand in these segments to lease modern, quality properties in convenient locations. Increasing the proportion of leasing revenues in the Company's overall mix is a key element of DAAR's diversification strategy. In 2015, leasing revenues rose to 6% of the Company's total revenues versus 4% in 2014.

Occupancy in leased properties increased modestly in 2015, owing to the challenging market backdrop, but nevertheless we saw clear traction with our key customers. Demand for new units in DAAR properties was seen as the number of leased units was increased by additional 97 units. The future demand for residential leased units was increased in Al Qasr which is considered the largest community offering leased units.

In Al Qasr Mall, the new entertainment operator, Al Jamouli, signed a 5,270 square meters lease in Q4, taking entertainment space in the mall to new levels. In addition to Jamouli, thirteen new shops and two fast food outlets were leased during 2015. Al Qasr Mall was chosen for the second time in succession to host the successful Riyadh Shopping Festival.



Both Al Masif compound in Riyadh and Azizia Residential Towers in Medina maintained occupancy of 100% and continued to perform well for the year. Al-Tilal residential community continued to be underserved but efforts to lease to the Government and Corporate organizations in Medina continued.

2-3 Real Estate Development and major projects: 12 million square meters of master planned communities under development

2-3-1 Planning Status

DAAR has a number of major projects underway, but the execution of these projects is subject to significant regulatory requirements and procedures. Obtaining necessary permits from the relevant authorities for the master plan developments is an essential pre-requisite for projects and to date, we have experienced significant delays. A key change during the year was assigning Ministry of Housing (MOH) the authority to issue and approve residential master plans. This change will enable developers to quickly get their housing plans approved and allow higher Floor Area Ratios (FAR) where applicable.

2-3-2 Development projects

▪ Shams ArRiyadh

Discussions with the authorities regarding the approval of the master plan made significant progress in 2015, with the Shams ArRiyadh master plan obtaining the High Commission for the Development of Arriyadh (ADA) support in December. However, some development parameters remained under negotiation at the end of 2015.

The joint venture (JV) to develop Shams ArRiyadh Gated Community, in cooperation with Dar Al Bayan for the Real Estate Development, moved forward as the market and feasibility study was finalized and used as the basis for detailed design work that was awarded to DWP, a Dubai based engineering organization.





During 2015, further development was made on the Urban Center of Shams ArRiyadh, which is to be marketed as the Northwestern Gate of the Kingdom's Capital, taking advantage of ADA's plans for creating alternative urban centers around the City. The design of this center includes developing retail, hospitality, healthcare, mixed use residential and commercial as well as a Convention Center, an Iconic Tower and a Creative and Media Hub. Discussions are ongoing with anchor tenants and investors regarding the project.

The redesign contract for the project's main roads and related infrastructure was awarded to Saudi Consult in the second half of 2015 and the work will be commissioned to contractors during 2016.

▪ **Juman in Dammam**

During 2015, the master plan was finalized at a pre-concept level, in line with the development strategy based upon marketing and feasibility studies performed by GRMC. Bathymetric survey studies were completed indicating a very attractive proposition, as the majority (73%) of the land is only 1.1 meters below water level, which will enable DAAR to save costs and accelerate infrastructure development of the project. Discussions were held with various authorities including Ministry of Rural and Municipal Affairs (MoMRA) and Dammam Amana to better define the project and obtain their feedback and guidance.

▪ **Shams Al Arous in Jeddah**

Developed land plots continued to be offered for sale. The project includes a residential mixed use community with 3,304 units. Zoning of the southern part of the land is in progress with the municipality.

▪ **Al-Tilal in Medina**

Developed land plots continued to be offered for sale. Planning and design of additional units to Al-Tilal development is ongoing.

2-4 Finance review for 2015

2-4-1 Operational performance

Revenue decreased by 27.6% to SR 2,211million (2014, SR 3,056 million) driven by slower than expected land trading volumes in KSA.Land trading revenue was SR 2,075 million (2014, SR 2931 million) , down 29.2%.Property management and leasing revenue increased to SR 136 million (2014, SR 125 million), up 9.1% of the Properties Management revenues primarily due to Ministry of Foreign Affairs (MOFA) and Al Hammadi hospital rentals commencing in 2015, and was 6% of the Company's total revenue. Gross margin was high, demonstrating the quality of the land sold from DAAR's portfolio. Margin improved to 44.5% (2014, 42.5 %). Selling, General and a Dministraion Expenses (SG&A) were at SR 204 million (2014, SR 237 million) primarily due to lower professional & consulting services in 2015.

2-4-2 Finance and other expenses

In 2015, the Company succeeded in substantially improving its debt profile and financing expenses, with the average cost of funding falling to 5.5% versus 7.8% in 2014, driven by the 2015 repayments of higher yield Sukuks and improving credit terms with local and regional banking institutions on new or refinanced debt. Finance expenses were SR 385 million (2014, SR 493 million).Other income of SR 14 million was lower than SR 63 million in 2014 mainly due to lower average cash deposits.

Total assets decreased to SR 25,305 million (2014, SR 26,383 million) driven by repayment of the 2015 Sukuk of SR 1,688 million in February 2015.

2-4-3 Profitability

Reduced transaction volumes brought about a 37.6% decline in net profit to SR 359 inverses SR 575 million in 2014. Profitability decreased in spite of higher margins achieved from land sales and lower operating expenses, with net profit margin dipping to 16.2 % (2014,18.8 %).





2-4-4 Liquidity and debt

Cash balances decreased to SR 1,001 million (2014, SR 2,310 million) as DAAR repaid its SR 1,688 million 2015 Sukuk in February 2015 and other debt repaid during 2015 amounted to SR 411 million in accordance with due repayment dates of existing loans. Good progress was made to diversify sources of funding as new debt was issued from local banks against leased properties and existing regional syndicated facilities were refinanced with more favorable terms in the second half. Gross debt stood at SR 6,390 million (2014, SR 7,607 million) and gross debt/market capitalization stood at 26%.

Maturities are well spread, liquidity management is prudent and the maturity profile extends to 2025. The Company is managing cash flow carefully in anticipation of forthcoming Sukuk repayments, with strong operational cash flow and cash in hand ahead of the next Sukuk maturing in November 2016. Thereafter, no Sukuks are due for repayment before May 2018.

2-5 Balance sheet

Receivables amounted to SR 1,949 million (2014 SR 1,748 million) mainly due to extended payment terms of selected land transactions. Land and development projects and properties for lease account for SR 20,536 million (2014 SR 20,673 million), a modest drop as DAAR was a net seller of land during 2015. Investment in the acquisition of land reduced to SR 390 million (2014: SR 2,000 million) on account of its sizeable land bank and to conserve cash. DAAR continued to invest in infrastructure developments of its existing land bank with SR 697 million being invested in 2015 (2014: SR 390 million). Total assets decreased to SR 25,305 million (2014, SR 26,383 million) driven by the repayment of the 2015 Sukuk by SR 1,688 million in February 2015.

2-6 Credit rating

DAAR continues to maintain a stable outlook with a Ba3 credit rating from Moody's. Moody's rating reflects DAAR's strong positioning in its operating and business environment, as well as the Company having significant value

in its assets. This includes a growing recurring income portfolio, a more conservative financial policy including pre-funding of future debt maturities. As the current terms of DAAR's Sukuk program require the Company to maintain only one international credit rating agency, DAAR decided to discontinue rating services with S&P in December.

2-7 Outlook

The outlook for 2016 remains challenging on account of the Government's austerity measures, the outcome of which is difficult to predict. However, there are significant opportunities which could positively impact the market and the Company's performance. Due to the uncertainty of these market factors, management is unable to issue a guideline on performance until factors influencing trading become easier to predict.

3 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 H, 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.

3-1 The Company's Subsidiaries

3-1-1 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 fully paid up capital of SR 500,000, registered in Riyadh under the Commercial Registration No.1010247583, dated 28/3/1429 H (corresponding to 5/4/2008). The Company operates in the construction of residential and commercial buildings (construction, maintenance, demolition and restructuring) in the Kingdom of Saudi Arabia.





3-1-2 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 fully paid up capital of SR 500,000, registered in Riyadh under the Commercial Registration No.1010254063, dated 25/7/1429 H (corresponding to 28/7/2008). The Company operates in the 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.



3-1-3 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 fully paid up capital of SR 500,000, 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.

3-1-4 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 fully paid up capital of SR 500,000, 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.

3-1-5 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 fully paid up capital of SR 500,000, registered in Riyadh under the Commercial Registration No.1010274407, dated 11/10/1430 H (corresponding to 01/10/2009). The Company operates in the development, maintenance and management of real estate as well as land procurement and general contracting in the Kingdom of Saudi Arabia.

3-1-6 Thawabit Investment Company

Thawabit Investment Company is a limited liability Company, a wholly owned subsidiary of Dar Al-Arkan Real Estate Development Company with fully paid up capital of SR 500,000, 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.



3-1-7 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 fully paid up capital of SR 500,000, 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.



3-1-8 Investments in Subsidiary Companies as Defined by the Rules of the Capital Market Authority (CMA)

3-1-8-1 Khozam Real Estate Development Company

Khozam Real Estate Development Company (Khozam) is established as a limited liability company with a total equity of 54,028,728 shares 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).



3-1-8-2 Alkhair Capital

The Company owns a 34% stake in Alkhair Capital Saudi Arabia (Alkhair) equivalent to 10,200,000 shares. Alkhair is licensed by Saudi Arabia's Capital Market Authority to deal as principal and agent with a total number of 30 million issued shares (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 27/3/1430 H (corresponding to 24/03/2009). Alkhair's headquarters are based in Riyadh city and it operates in the Kingdom of Saudi Arabia.

4 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:

4-1 Real Estate Development

The revenue of this division is derived from the sale of land and developed residential and commercial properties to individuals, corporate, investors and developers. During the fiscal year 2015 this division accounted for SR 2,075 million, representing 93.85% of the Company's total revenues, as compared to SR 2,931 million, or 95.92% in 2014.

4-2 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 2015, revenues generated in Property Management and Leasing amounted to SR 136 million and represented 6.15% of Group revenues, compared to SR 125 million or 4.08 % of total revenues in 2014.

4-3 Investment Activities

Revenue from investment activities represents income generated from strategic investment in companies, which the Company's management believes is complementary to Dar Al-Arkan's real estate development activities. During 2015, these investment activities were not significant to the Company's net profits as their contribution accounted for 3.56% of DAAR's net profit. Furthermore, during 2015 the Company earned SR 1,1 million representing 0.3% of net income. This arose from income received from Islamic Deposits and compares to SR 47 million (8.2% of net income) in 2014.

5 Saudi Real Estate Sector Overview

5-1 The Saudi Economy

2015 witnessed a decrease in Government spending (actual expenditure was SR 975 billion). During 2015, the international price of oil dropped massively due to increased supply and a slowing world economy as well as been involved in the Yemeni war. However, Saudi Arabia maintains a very solid financial position with significant reserves and a strong balance with financial flexibility. The Government has announced an estimated 2016 spending budget of SR 840 billion demonstrating their continuing commitment to support the local economy and safeguard it from oil price fluctuations and the political situation in the region. Government spending plans continue to focus on developing projects in education, health and housing as well as in security, social and municipal services, utilities, infrastructure and technology, scientific research as well as encouraging investment opportunities. Expansionary fiscal policies in the Kingdom are expected to further support a prosperous economy in the coming years, visible in all economic sectors, especially in the consumer related sectors.

5-2 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.

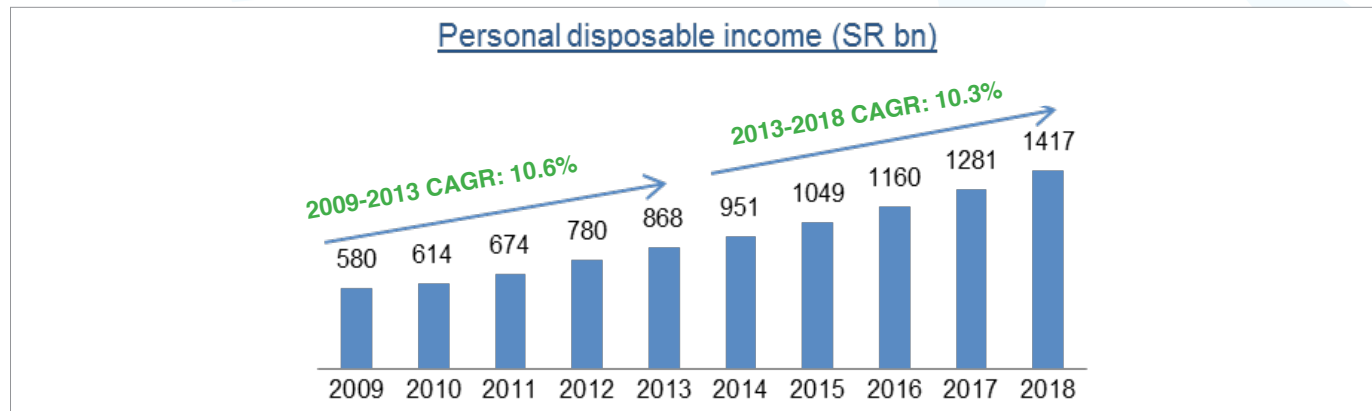




- A rapidly growing population.
- Age distribution with 70% of Saudis below the age of 35 years.
- Urbanization.
- Reduction in the average size of households.
- Evolution in financing for homebuyers and developers.
- Demand trends favoring apartment living compared with villas.
- Land costs.

Although in 2015 the Government decided to reduce project expenditure because the international price of oil dropped as a result of increased supply and a slowing world economy, together with the political situation within the region and the Yemeni war, Housing remains a Government priority driven by a significant gap between demand and supply of about a million units.

With strong growth in disposable incomes, citizens will continue to invest in their homes whether through renting or through mortgages.



(Source: Economist Intelligence Unit, SAMA)



The Saudi population is young. About 70% is under the age of 35, 51% under the age of 25, (as of Feb 2012) 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 in the Gulf countries (Saudi Arabia, Bahrain, Oman, Kuwait, Qatar and the United Arab Emirates) will enter the workforce from 2013 to 2018. The young adult age group accounts for the largest proportion of the population at nearly 15.2 million, and therefore constitutes the demographic segment being targeted that is looking for a home purchase. Moreover, it is estimated the population growth rate will remain at 2.6% as a larger segment of the Saudi population enters the age of marriage.

The housing market will further benefit from a cultural change in falling household sizes. Al Ahli Bank in its "Saudi Housing Sector Overview" estimates that by 2020 the average household size will be 5.28 people as families become more concentrated compared to the more traditional "extended family" arrangements prevalent 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 this 10 year period, outperforming Saudi Arabia as a whole which experienced a 215% increase. The report highlights that despite rising development activity, demand for residential units in Riyadh continues to outstrip supply. Indeed, the City has a requirement for around 50,000 housing units per annum over the next five years with its current estimated housing inventory of just 1,15 million units. The Ministry of Housing in a recent study has estimated that 200,000 units per year are needed across the Kingdom to satisfy this increased demand.

The following initiatives are at the forefront of the Government's strategy to boost the housing sector:

(1) The Government's initiative to establish the Ministry of Housing an allocation of SR 250 billion of the 2011 budget surplus to build 500,000 housing units. As the Ministry is responsible for development and distribution of funds, this program is being designed through a scheme where the infrastructure on Government owned land is built under contract with the Ministry and private developers are invited to participate in all vertical construction.





(2) 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 has granted 443,842 private loans as well as 2,488 investment loans with a total value of SR 120,144 million. This has resulted in the construction of 555,860 residences, according to information gathered from the Ministry of Housing.

(3) Developing the real estate legislative environment will provide an appropriate mechanism to encourage investment in the real estate sector. 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 out of the five mortgage laws, which include the Real Estate Financing Law, the Financial Lease Law, and the Supervision of Finance Companies Law. With positive steps taken towards applying these regulations by the end of 2014, SAMA has awarded 37 licenses to Saudi banks and financing companies to practice real estate financing according to the new legislation. A further 14 license applications are in process by SAMA. The impact of implementing these mortgage laws will be discussed later in this report.

(4) There have been many initiatives during 2015 and these are summarized as follows:

- The Minister of Housing ('MoH') has separated the REDF into an independent financial body. This enables the MoH to focus on housing solutions and strategy while the REDF focuses on financing.
- The REDF has developed a number of loan schemes.
- Negotiations are ongoing between SAMA, MoCI and RDEF to develop an off-plan sales policy.
- The MoH has announced that housing projects will be implemented in cooperation with developers. This increased private sector involvement is beneficial to DAAR.

The above factors will see sector investment benefit from economies of scale and more intensive development by accessing funds from both internal and external sources. Also foreign investment will be attracted as well as state

support from partnerships between financiers, developers and state institutions to fulfill these large integrated real estate projects. Additionally, these projects will provide multiple socio-economic and environmental benefits that will enhance the sector's ability to meet market needs and balance demand and supply.

5-3 Update on Mortgage Legislation and its Anticipated Impact

A significant development occurred in the real estate market in 2012 with the 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 license 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 into 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. 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 homes through domestic lending with the added benefit of their rights being protected. If financial institutions such as the banks participate in mortgages, the impact of the Mortgage Law will extend to the broader economy in terms of increasing revenues of both real estate owners and banks as a result of improving credit sales.

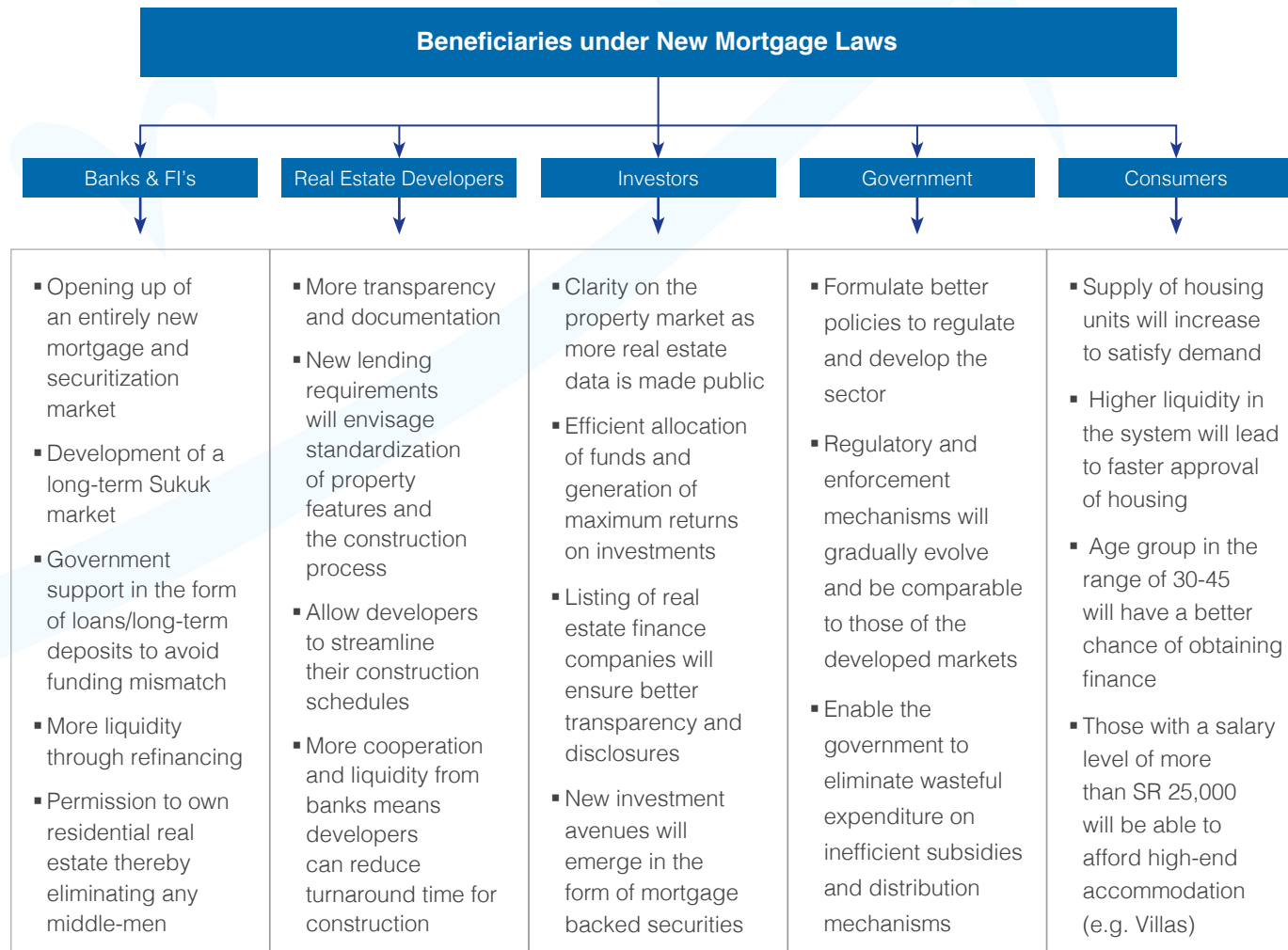




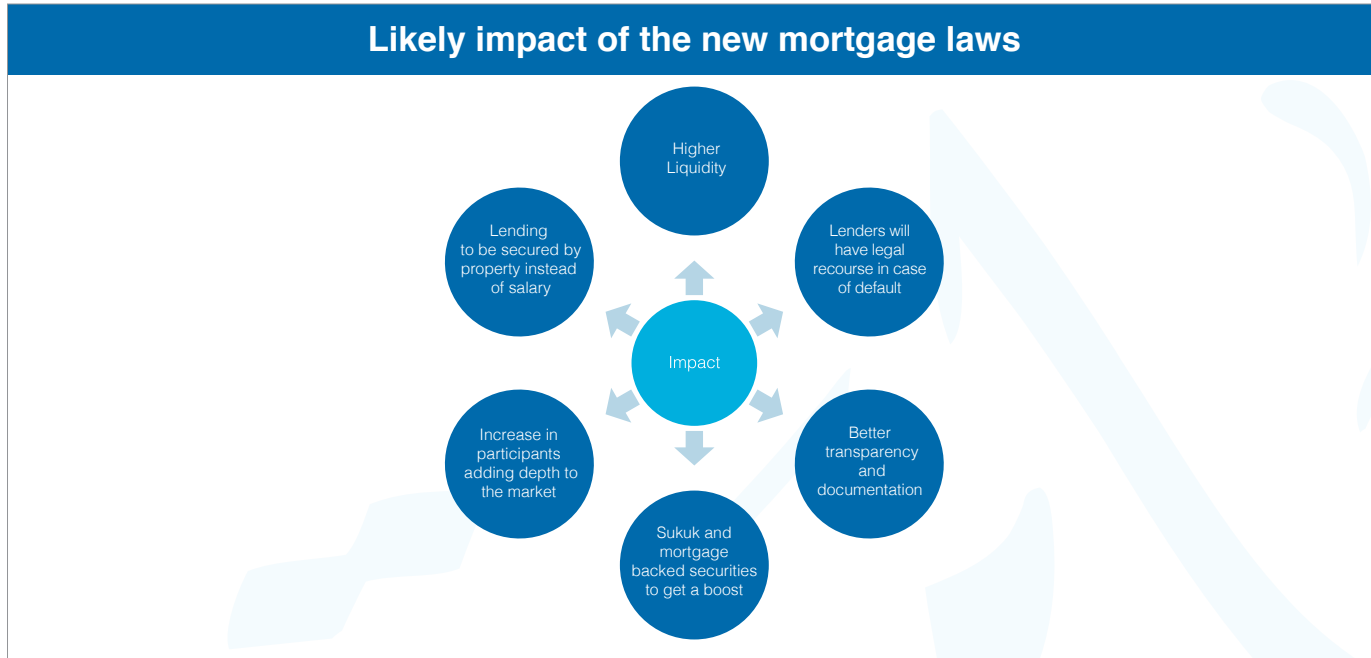
In addition, the Mortgage Law will create considerable inflows of finance to the mortgage sector, which will benefit the Sukuk market. Estimates from the Ernst and Young Global Islamic Banking Excellence Centre expect global demand for Sukuks will triple by 2017. This boom in demand is mainly attributable 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 commercial bank estimates nationally, investment in the housing sector between 2011 and 2020 is anticipated to be SR 1.3 trillion (equivalent to US\$ 345 billion), which is to be used in the construction of 2.4 million housing units. This implies numerous opportunities will be available to developers and investors to meet the expenditure required by the Government and the private sector to bridge the demand-supply gap. Enactment of the Mortgage Law, under an accelerating growth in demand prevailing in the housing market, will help sentiment towards real estate investments it meets the requirements of modern life and takes into consideration the variables that may occur in the future.





Source: AlRajhi Capital, Market



(Source: AlRajhi Capital, Market Research)

6 Company's Business Model

The Company adopts a flexible business model aimed at maximizing the growth of the Company's assets and profits. Therefore, the Company invests significant 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 large urban centres, where purchasing power is higher, and an increase in value is achieved at each development stage. The development process goes through a series of well-defined steps which ensures the value-add is maximized at each stage as follows:



Development stage		Input	output
1	Sourcing land	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Designing and planning Obtaining the required permissions Earth work and landscaping Excavations and backfilling Land phasing 	Semi-developed land plots
4	Development of Infrastructure	<ul style="list-style-type: none"> Materials and technology Road and sidewalk pavement Plantation Setting of different service networks 	Fully developed lots
5	Development of superstructure	<ul style="list-style-type: none"> Designing Construction plan Materials and technology Commissioning and correction of potential defects 	Semi-finished Residential unit
6	Finishing and decoration	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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 deploys 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:

1. the development and sale of land,
2. the development and sale of residential and commercial units and
3. the 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:

6-4 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 consumers.

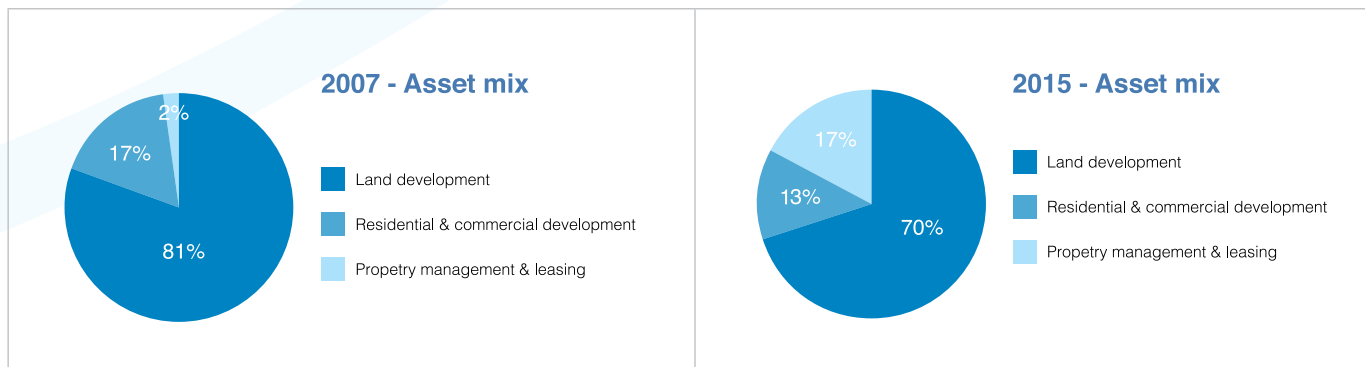
6-5 Vertical Development

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

7 The Strategy

7-1 Diversification Strategy



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

7-2 Residential and Commercial Development is the Cornerstone 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 "Juman" in Dammam for 8,2 million square meters. The Juman development will enable DAAR to develop a premium waterfront 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 top tier cities in the Kingdom

7-3 Growing Property Management and Leasing

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

Occupancy in leased properties in 2015 was amounted to SR 3,6 billion. Key customers continue to demand new units in DAAR properties including one of the largest mega malls in Riyadh in addition to residential and commercial assets in the cities of Riyadh, Makkah and Madinah. The company will continue benefiting from its integrated projects in developing residential and commercial assets for rent in Shams Al-Arous along with a housing compound in Shams ArRiyadh, as well as seeking earnestly to support the asset portfolio with leasable commercial and residential properties that meet the Company's investment criteria.

7-4 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 will enhance shareholder value over time.

7-5 Conservative funding strategy

The Company has successfully diversified its funding and improved its maturity profile to support its business model and reduce liquidity risks. DAAR will pursue further diversification to support strategic changes in our business. Going forward, project and leased 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 Islamic Sukuk market started in 2007 and the Company is fully committed to maintaining this relationship going forward. This includes diversifying into other local Sukuk markets. DAAR is moderately leveraged and plans to improve current leverage ratios.

Currently DAAR enjoys a BA3 rating from Moody's and an AA3/P1 credit rating from RAM. The Management is committed to maintaining relationships with credit agencies and takes all steps to improve performance for further upgrades.

8 Residential and Commercial Development

8-1 DAAR is One of the Largest Private Sector Developers in the Saudi Real Estate and Construction Sector

DAAR is one of the largest private sector developers in the real estate and construction sector in the Kingdom. DAAR is a major leader in the investment, development and financing of real estate in the Kingdom across all sectors including substantial master-planned communities, mixed-use residential and commercial developments, retail development and joint ventures.



8-2 Juman Project



The project is located in the Eastern Province overlooking Tarout Bay. It is based on the reclamation of 8.2 million square meters of semi submerged land, based on an agreement dated 22/04/2014 with the owners. Under the terms of this agreement, DAAR is the development manager of the project and acquired an 18% stake in the land.

The project will be a master-planned community with diverse land use, including 2,706,970 square meters for residential, 395,990 square meters for hospitality, 1,156,722 square meters for mixed use (retail and residential), 242,312 square meters for a regional mall and 717,872 square meters for office, medical, educational and other uses.

During 2015 the master-plan was developed to a pre-concept stage according to the development strategy based on the market and the economic feasibility studies conducted by GRMC. The bathometric surveys were completed and concluded that (73%) of the land area is only 1,1 meters below the water level. This conclusion enables DAAR to reduce costs and accelerate the development of the project's infrastructure. On the other hand, discussions continue with various authorities including MoMRA and Damam Amana to better introduce the project and obtain their feedback and guidance.

8-3 Shams ArRiyadh Project



Located in the north-west of Riyadh in the Al-Dariya district, the Company is developing Shams ArRiyadh, DAAR's second master-planned community project. Shams ArRiyadh 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 and targets the middle to upper segment of the market. The project's notable features include elevated land giving panoramic views over the natural valley of Wadi Hanifa, with added benefits of wide roads and pedestrian sidewalks. There is space designated for different sporting, social and cultural activities as well as other public amenities and facilities.

The discussions with the relevant authorities to approve the master plan of Shams ArRiyadh project, have made a remarkable success as the master plan got the support of ADA in December 2015, yet some issues related to development basis are still pending and under negotiation end of 2015.

The joint venture with Dar Al-Bayan real estate development has made a significant progress in developing Shams ArRiyadh gated compound. The feasibility study completed and was used as a basis for the detailed design works which were awarded to DWP, an engineering consulting firm based in Dubai.

During 2015, discussions with the Ministry of Housing created a residential village concept within Shams ArRiyadh. A market and feasibility analysis was undertaken based on meetings with the Ministry of Housing. Based on the conclusions of this analysis, the product mix was modified and design adaptations were made.

A concept master plan was commenced during 2015 for the construction of a Gated Compound targeting the Expat community. This followed various pre concept design alternatives that were prepared with the master plan modified accordingly. The joint efforts for the design and construction of this component are ongoing.

During 2015, there was also focus on the Urban Center of Shams ArRiyadh, which will be positioned as the Northwestern Gate of the Kingdom's Capital. The Urban Center will take advantage of ADA's plans of creating alternative urban centers around Riyadh. During 2015, this strategy was further developed and the market and feasibility study commissioned is continually referenced to validate the direction. The design of this component has been further developed to include retail, hospitality, healthcare, mixed use residential and commercial areas 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 2015, 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 1.8 million square meters of project land area was sold to Saudi Basic Industries Corporation (SABIC). This sub developer started construction in 2014 and during 2015 considerable progress has been made.

Shams ArRiyadh in Numbers*	
Details	Numbers
Total project's remaining area	3.2 million m ²
No. of Residential units to be leased	13,574 units (Apartments)
No. of Residential units to be sold	2,551 units (Villas)
Commercial land to be leased	489,000 m ²
Percentage of completed Infrastructure**	47%

*Based on current development plan.

** Excluding land cost.

8-4 Shams Al-Arous Project



Shams Al-Arous is the Company's third master-planned community project and is strategically located approximately 12 kilometres east of downtown Jeddah. The community comprises an area of approximately three million square meters of fully developed land on the extension of Palestine Road, one of the main commercial roads in Jeddah. The project was linked to the Palestine Road by a 52 meters wide and a four kilometers long road with five lanes in each direction. 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 [FAR] further contributed to the demand for real estate in the project area.

During the years 2012 and 2013, the Company sold developed residential land plots of the project. In 2014, land sales progressed on the project with 338, 408 square meters sold to sub developers and brokers. In 2015, planning and design of additional product for the Shams Al-Arous development is ongoing.

Shams Alarous in Numbers	
Details	Numbers
Total project's net remaining area	938,000 m ²
Residential area to be sold	773,000 m ²
No of Residential units to be leased	25,733 units (Apartments/Villas/Townhouses)
Commercial space to be leased	190,000 m ²
Percentage of completed infrastructure*	100%

*Based on current development plan.



8-5 Al-Tilal Project



The Al-Tilal project is located in south west Medina, on Prince Sultan Road, one of the main roads in Medina, within the Alharam zone boundaries, 9 kilometers from the Prophet's Holy Mosque and 8 kilometers from the Quba Mosque. The project comprises a total land area of 2.2 million square meters which has been developed into subdivided plots. In addition, 499 villas were built and partially sold along with the majority of the residential and commercial developed land plots. During 2014, the company had further sold 10,082 square meters of developed plots to retail customers. In 2015 planning and design of additional product for the Al-Tilal development is ongoing.



Al-Tilal in Numbers	
Details	Numbers
Total project's net remaining area	438,824 m ²
Residential area to be sold	439,000 m ²
Total number of villas	499
Residential space GLA	87,000 m ²
Villas for leasing	279
Commercial space to be leased (square meters)	4,400 m ²
Percentage of completed Infrastructure*	100%

*Based on current development plan.



8-6 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 and is headquartered in Jeddah. Khozam capital amounts to SR 540 million, of which Jeddah Development and Urban Regeneration Company owns 49% contributed by the provision of 252,040.45 square meters 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 regenerating and developing slum areas in Jeddah. The initiative enjoyed generous patronage from the late 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 issued on 13/08/2010. 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.

8-7 Real Estate Market and its Impact on Dar Al-Arkan in 2015

A climate of uncertainty and negative market sentiment became apparent in the second half of 2015 due to fluctuations in oil prices and ongoing regional and global political and economic instability. In late 2015, Saudi Arabia announced a record budget deficit of SR 367 billion (\$97.9 billion), its second deficit year in a row, and cut investment spending by almost two thirds as it wrestled with oil price and supply issues.

In addition, there have been recent declines in real estate indicators (average price per square meter and number of transactions) which have continued since the beginning of the second quarter of 2015. This reflects the continued exposure of the real estate market to a number of factors and variables including the implementation of the fees on vacant lands within the urban boundaries of cities and provinces. A number of these factors will continue to have an impact on real estate market performance in the Kingdom during 2016.

Due to the above DAAR adopted a conservative development strategy in 2015 with regards to its pipeline of projects.

Excellent progress was however made in respect of Master Plan design development for the Shams Arriyadh and Juman projects as follows:

▪ **Shams ArRiyadh**

Infrastructure design has been completed and is ready for tendering. Sub Master Plan components:

- Shams ArRiyadh Gated Compound: concept design stage is progressing.
- Residential Village: feasibility study, design brief, concept design and RFP are ready for tendering.
- Mixed Use and Commercial Zone: design and reallocation of built-up-area (BUA) is being analyzed.
- Shams ArRiyadh Mosque: detailed design stage.
- Estimated timelines for securing planning approvals and commencing construction are as follows:
 - Planning approval in the 4th Quarter, 2016.
 - Commencement of construction in the 1st Quarter, 2017.

▪ **Juman**

Feasibility study completed by GRMC, Master Plan preliminary study completed, Concept Master Plan, and animation and tender documents of the Master Plan are ready to be awarded. The bathometric surveys were completed and concluded that (73%) of the land area is only 1,1 meters or less than 70 centimeters below the water level.

The approval process from the respective Municipalities is advancing for the projects. DAAR is keen to ensure that any development approval given by the Planning Authorities provides a strong financial base and necessary flexibility to manage the substantial investment required for the infrastructure and ongoing superstructure for the projects.

Estimated timelines for securing planning approvals and commencing construction are as follows:

- Planning approval in the 1st Quarter, 2017.
- Commencement of infrastructure works in the 2nd Quarter, 2017.



9 Property Management and Leasing

9-1 Overview

The year 2015 marked another year of progress, albeit slower than hoped for growing recurring income. At the end of 2015, revenue from leased assets amounted SR 136 million representing, 4.1% of total income, this compares to 6% of the Company's total revenue.

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 improved operations. 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.



9-2 Key Events in Property Management and Leasing

9-2-1 Major Leasing Agreements Concluded in 2015

9-2-1-1 Al Masif



The compound contains 26 villas located to the North of Riyadh city. The compound is still leased to one of the companies working in Riyadh Metro project. The speed of leasing again reflects the high demand for good quality properties for the corporate segment.



9-2-1-2 Al Qasr Community



A number of leases were signed at Al Qasr Community during 2015 with large corporate and Government tenants. It was pleasing to note that many of these leases were signed with existing tenants, who are expanding their presence in Al Qasr. These agreements included an additional of 38 residential unit.



9-2-1-3 Al Qasr Mall



The year 2015 saw an expansion of leasing activity, with lease agreements being finalized with a range of well-known brands including Jammoly World, Heleume Perfumes, Matlan Cloths and Desndat for Watches. A total of 65,391 square meters, or 267 units, were leased in 2015.



9-2-1-4 Al-Tilal

The Al-Tilal community is another location that is experiencing good demand from the corporate and Government sectors. A total of 105 villas have been leased to date.

9-3 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 Company's management grew to 726,000 square meters by the end of 2015.

Development	Leasable Area (square meters)	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	40,472	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			

9-4 Description of the Leased Asset Portfolio

9-4-1 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 Fahad 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), 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 2015, 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 (staff accommodation).

9-4-2 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 square meters, 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 Homaidi, 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 2015 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.

9-4-3 Azizia Towers



The Azizia Towers development in Mecca is located in the heart of the Azizia quarter on Prince Sultan Street, only 5.5 kilometers 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 square meters, which includes 276 apartments with a net residential area of 40,472 square meters, and 6 showrooms with a total area of 2,135 square meters. The Towers are leased to King Abdullah Medical City.



9-4-4 Al Masif



Al Masif gated community represents another investment in providing distinctive, quality residential environments to the corporate segment. Located in Al Masif neighborhood of North Riyadh, the gated community comprises 26 duplex villas surrounded by green space, with a children's play area and a swimming pool. In June 2014, Al Masif was leased to NESMA.



9-4-5 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 square meters. 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 2015 leasing activity was directed 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- scape.





The Financial Results



ANNUAL REPORT 2015

Dar Al-Arkan Real Estate Development Company

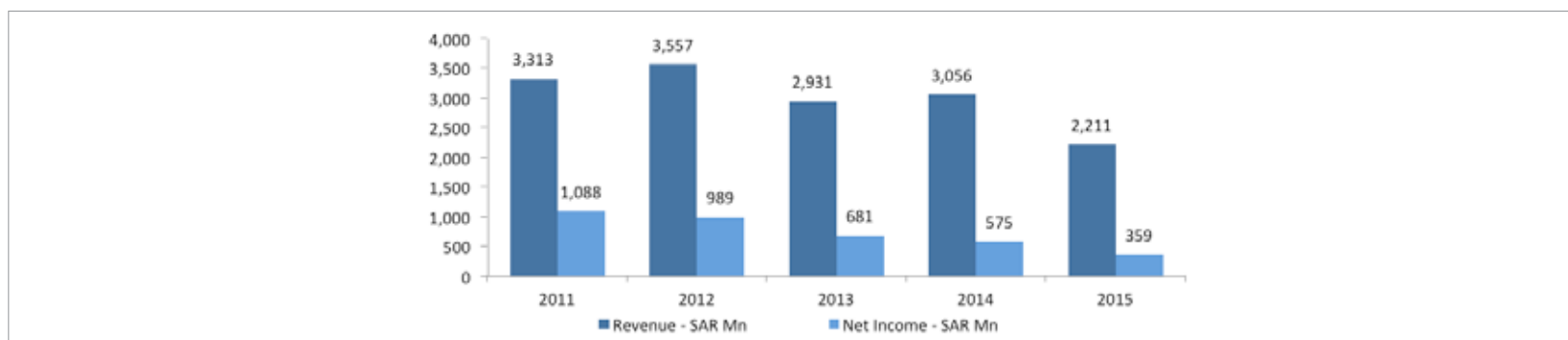
10 The Financial Results

10-1 The Income Statement for the Fiscal Years 2011 to 2015

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)	2015	2014	2013	2012	2011
Operations' revenue	2,211,349	3,056,060	2,931,168	3,557,072	3,312,510
Cost of revenue	(1,228,117)	(1,756,805)	(1,778,097)	(2,163,366)	(1,943,497)
Gross profit	983,232	1,299,255	1,153,071	1,393,706	1,369,013
Principal activities expenses	(243,824)	(279,341)	(182,692)	(209,279)	(118,594)
Net income from principal activities	739,408	1,019,914	970,379	1,184,427	1,250,419
Financing expense	(384,801)	(493,294)	(313,959)	(264,086)	(212,809)
Net other Income	13,875	62,895	42,570	93,626	99,699
Net income before Zakat provisions	368,482	589,515	698,990	1,013,967	1,137,309
Zakat provisions	(9,325)	(14,820)	(17,528)	(25,430)	(49,374)
Net income	359,157	574,695	681,462	988,537	1,087,935
Earnings per share	0.33	0.53	0.63	0.92	1.01

Total revenue and net income changes from 2011 to 2015





10-2 The Balance Sheet for the Fiscal Years 2011 to 2015

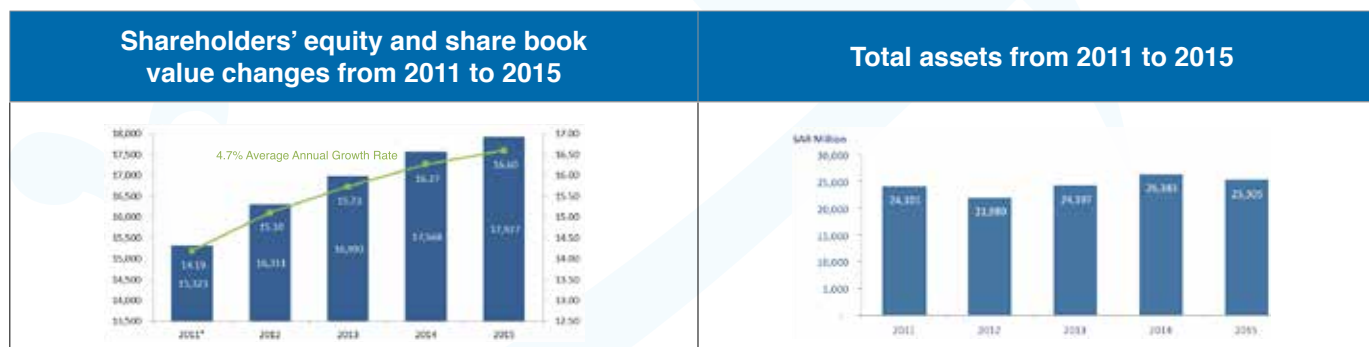
The following table illustrates the main balance sheet items for the last five years. This should be read in conjunction with the audited consolidated financial statements and accompanying notes.

Item (in SR '000s)	2015	2014	2013	2012	2011
Assets					
Current Asset	4,361,742	5,668,959	5,099,412	3,552,478	6,411,458
Non-current Asset	20,875,085	20,642,308	19,023,550	18,350,137	17,606,697
Fixed Asset	68,416	71,279	74,370	77,674	82,604
Total Asset	25,305,243	26,382,546	24,197,332	21,980,289	24,100,759
Liabilities					
Current Liabilities	2,596,980	3,337,922	2,027,894	2,362,996	5,741,282
Non-Current Liabilities	4,781,590	5,477,108	5,176,617	3,305,934	2,771,914
Total Liabilities	7,378,570	8,815,030	7,204,511	5,668,930	8,513,196
Equity					
Capital	10,800,000	10,800,000	10,800,000	10,800,000	10,800,000
Statutory reserve	978,300	942,384	884,914	816,768	716,768
Retained earnings	6,148,373	5,825,132	5,307,907	4,694,591	3,806,054
Total shareholders' Equity*	17,926,673	17,567,516	16,992,821	16,311,359	15,322,822
Total Liabilities and Shareholders' Equity	25,305,243	26,382,546	24,197,332	21,980,289	24,100,759
Book value per share**	16.60	16.27	15.73	15.10	14.19

*Total shareholders' Equity for the year 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.



* The year 2011 excluded non-controlling interest from Dar Al-Arkan's subsidiaries of SR 265 million

10-3 Results of Operations

The following table compares the results of operations for 2015 and 2014.

Item (in SR '000s)	2015	2014	Change (+or -)	Change %
Revenues	2,211,349	3,056,060	-844,711	-27.64%
Cost of revenues	1,228,117	1,756,805	-528,688	-30.09%
Gross Profit	983,232	1,299,255	-316,023	-24.32%
Principal activities expenses	243,824	279,341	-35,517	-12.71%
Net income from principle activities	739,408	1,019,914	-280,506	-27.50%
Financing charges	384,801	493,294	-108,493	-21.99%
Net other Income	13,875	62,895	-49,020	-77.94%
Net Income before Zakat provisions	368,482	589,515	-221,033	-37.49%
Zakat provisions	9,325	14,820	-5,495	-37.08%
Net Income	359,157	574,695	-215,538	-37.50%
Earnings Per Share	0.33	0.53	-0.20	-37.50%





10-3-1 Revenues

Total revenues were SR 2,211 million in 2015, compared to SR 3,056 million in 2014, representing a decrease of 27.64%. The decline is mainly due to the decrease in land sales.

Rental revenues increased by 9% to reach SR 136 million during 2015 compared to SR 125 million in 2014 due to the growing occupancy ratios of the Company's residential and commercial properties assigned for lease in Riyadh and Madinah regions.

Company did not earn any revenue from the sale of residential properties in 2015 due to the Company's renting strategy. This compares to SR 8 million in 2014.

Revenues from the sale of land were SR 2,075 million in 2015 compared to SR 2,923 million in 2014, representing a decrease of 29% mainly due to the lower area of land sold and lower average selling price per square meter attributable to location and development status of the properties sold compared to 2014. The total area of land sold during 2015 was 3.14 million square meters, a small decrease on 2014 when 3.23 million square meters 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.

10-3-2 Cost of Revenue

Cost of revenue accounted for SR 1,228 million in 2015, representing 55.5% of total revenues compared to SR 1,757 million in 2014 or 57.5% of total revenues. This small decrease in the cost of revenue is mainly due to the higher gross profit generated by land sales revenue in 2015 compared to 2014.



10-3-3 Selling and General Administrative Expenses

Selling and general administrative expenses were SR 204 million in 2015 compared to SR 237 million in 2014, representing a decrease of 14%. The decrease is primarily due to lower professional and consulting services.

10-3-4 Financing Charges

Net financing charges were SR 385 million in 2015 compared to SR 493 million in 2014, representing a decrease of 22% amounting to SR 108 million. This decrease is primarily attributable to the successful repayment of US\$ 450 million of high cost Sukuk in February 2015.

10-3-5 Net other income

Net other income was SR 14 million in 2015 as compared to SR 63 million in 2014. The decrease is due to lower amount of deposits compared to the higher amount of deposit in 2014, due to the cash balance earmarked for the planned repayment of Sukuk IV in February 2015..

10-3-6 Net Income

Net income in 2015 was SR 359 million compared to SR 575 million in 2014. Earnings per share were SR 0.33 in 2015 compared to SR 0.53 in 2014. In conclusion from the above, the decrease in net income was driven by lower land sales and lower non-operating income in spite of a decrease in selling and general administrative expenses and finance costs, and relatively higher gross margins achieved on revenues compared to 2014.

10-4 Liquidity and Capital Resources

As of 31 December 2015, we had cash and cash equivalents of SR 1,001 million compared with SR 2,310 million as at 31 December 2014.





10-4-1 Cash Flows

The following table sets out the Company's cash flows for the financial periods 2014 and 2015:

(in million SR)	2015	2014
Funds from Operating Activities	491	333
Funds (used in)/ from Investing Activities	(449)	(1,966)
Funds from/ (used in) Financing Activities	(1,350)	1,665

Net cash flow from operations stood at SR 491 million in 2015 compared to SR 333 million in 2014. The positive variance is mostly related to the decrease in developed land and other working capital movements in 2015.

The Company's net investments in land and project development have primarily led to an overall outflow of cash in investing activities of SR 449 million in 2015. The cash outflow from financing activities of SR 1,351 million was primarily due to repayment of Sukuk IV in February 2015 amounting to SR 1,523 million

10-4-2 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 2015, we spent SR 1,088 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.

11 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, the surplus and liquidation tests which will indicate the eligibility for distribution or not, and the implementation of the profit 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.

12 The Company's Financing Program

12-1 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 issued six international and one local Sukuk.

Total funds raised from Sukuk amounted to SR 12.8 billion, SR 8.5 billion of which has already been repaid as of end of 2015, whereas the remaining SR 4.3 billion is due for maturity within the next 1-4 years. Pursuant to its diversification strategy, the Company has successfully established good relationships with local, regional and international banks where it has achieved medium and long term financing mostly through Islamic Murabaha or Ijarah facilities for general corporate purposes. The total outstanding amount at the end of 2015 was SR 2.07 billion. The ratio of International Islamic Sukuks to total financing amount as of the end of 2015 was approximately 67%, whereas the Murabahas and Ijaras with local and regional banks were 33%. 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 has also built up a portfolio of rental properties, where these income-generating assets can be offered as security for loans from financial institutions. At the same time, Dar Al-Arkan believes in the relationship it has established with international Sukuk investors over the last 7-8 years and given the excellent track record, it will continue maintaining this relationship by accessing the domestic and international capital markets.





12-2 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 2015.

12-2-1 Indebtedness details & Increase in financing at the end of 2015

By the end of 2015, the Company raised total net financing of SR 605 million. The Company successfully repaid the fourth Sukuk of SR 1.5 billion, and also repaid some of the local bilateral Murabaha facilities amounting to SR 550 million.



Bilateral Islamic Facilities in Million SR	Settlement	Original Amount	Starting Date	Opening Balance	Addition During 2015	Paid During 2015	Closing Balance	Maturity
Murabaha: Local Bank ANB	Quarterly settlement	400	12 Nov 2013	267	-	134	133	31 Dec 2016
Murabaha: Local Bank ANB	Half yearly settlement	130	02 Feb 2015	-	130		130	31 Oct 2017
Murabaha: Local Bank MUSCUT 1	Quarterly settlement	100	11 Oct 2011	40	-	20	20	31 Dec 2016
Others	Bullet	88	28 Sep 2011	88		88	-	8 Sep 2015
Murabaha: Local Bank MUSCUT 2	Quarterly settlement	175	26-Mar 2015	-	175	12	163	30 Sep 2022
Murabaha: Local Bank Alinma	Quarterly settlement from Q2 2016	300	11Jun 2015		300		300	31 May 2027
Ijarah: International Banks	Quarterly settlement	1427	11Jul 2015	1,427	4	119	1312	31 Jul 2020
Murabaha: GCC Bank	Quarterly settlement	112.5	07 May 2013	56	-	37	19	12 Jan 2016
Gross Total		2732.5		1,878	609	410	2077	

The ratio of gross debt to capitalization stood at 26% at the end of 2015. The closing cash balance decreases to SR 1 billion at the end of 2015 compared to SR 2,310 million at the end of 2014.

Summary of the Murabahas and Sukuks

Maturity	In million Saudi Riyals		
	Outstanding balance	Murabaha	Sukuk
2016	1,543	418	1,125
2017	299	299	-
2018	2,035	347	1,688
2019	1,865	365	1,500
2020 onwards	648	648	-
Total	6,390	2,077	4,313

12-3 Overview of the Sukuk Issuances and Repayments in 2015.

12-3-1 The Repayment of the Fourth Sukuk

In 18 February 2015 Dar Al Arkan repaid SR 1.51 billion which was the balance of the Islamic fourth sukuk. A partial payment of these sukuk were done during the course of fourth Quarter 2014 where Dar Al-Arkan concluded the purchase of SAR 164 million, which is 9.7% of the SR 1.68 billion Islamic fourth Sukuk.

13 Related Party Transactions

During 2015, the Company entered into transactions with related parties. The Company follows the same procedures as with other non-related parties. These transactions are not limited to certain duration and are presented in the AGM to obtain the required approvals for the current year and the coming one. Following is a brief of these transactions:





13-1 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 equivalent to 30 million shares out of 200 million issued shares. The common Board members between SHL and Dar Al-Arkan are namely: Mr. Yousef Abdullah Al Shelash, Mr. Hathloul Saleh Al Hathloul, Mr. Abdullatif Abdullah Al Shelash and Dr. Abdulrahman Hamad Al Harkan. 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 2015, there were no sales transactions with SHL, however there was an opening balance of SR 143,000 that was due from transactions recorded in prior years, which is fully settled in 2015 resulting in a nil balance due to or from this related party.

13-2 Khozam Real Estate Development Company (KDC)

Khozam Real Estate Development Company (KDC) is a related party as the Company has a 51% equity holding equivalent to 27,554,651 shares out of total equity of 54,028,728 shares 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. Abdullatif Abdullah Al Shelash and Dr. Abdulrahman Hamad Al Harkan. The management of KDC requested that it invests its excess cash balance (opening balance as at beginning of 2015 amounted to SR 195.61 million) with Dar Al-Arkan at a nominal interest repayable on demand to facilitate its working capital needs. During 2015, the Company repaid SR 2,32 million of this amount in advance; together with interest of SR 0,96 million for its operational requirements. The closing balance as at 31 December 2015 was SR 194,25 million. This transaction was approved during the AGM on June 15 2015 and the company can repay the amount and close the balance anytime

13-3 Bank Alkhair

Bank Alkhair B.S.C is a related party as 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 Shelash. In specific capital market transactions the Company

enlisted Bank Alkhair to provide general financial advisory work on Shariah-compliance advice and management of the international Sukuk issuances. During 2015, there were no fees and expenses charged except the opening balance of SR 0.1 million which is the remainder of the amount paid in earlier to be paid/settled during 2016.

13-4 Alkhair Capital

Alkhair Capital is a related party as the Company owns a 34% equity stake equivalent to 10,200,000 shares out of total issued shares of 30 million, 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 Shelash. Alkhair Capital was engaged to provide general financial advice, 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 international Sukuk issuances, the partial pre-closure of the Sukuk and leasing/subleasing of properties. During 2015 there were no fees and expenses charged and have no outstanding balance to be paid or settled.

14 Risks Attributable to the Company's Activities

- The massive decline in oil prices.
- Regional political complications.
- 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.





In addition to the previously mentioned, we will focus on the risks named in the audited financial statements:

▪ **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 policy to hedge and manage its variable commission rate risk exposures, if any, with shariah' compliant commission rate swap whenever applicable. 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. Management and Administration.





15 Management and Administration

15-1 Board of Directors

During 2015, eleven members of the Board of Directors run the Company, of whom two are executive, two are non-executive and seven 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 convening such meetings. The Board held four meetings during 2015 and the members' attendance is as shown below:



#	Name	Capacity/ membership	Attendance	Other JSC Membership
1	Yousef Abdullah Al Shelash	Chairman/non-executive	4	Saudi Home loans Co. (SHL) Alkhair Investment Bank Alkhair Capital
2	Abdullatif Abdullah Al Shelash	Executive	4	Saudi Home loans Co. (SHL) Alkhair Investment Bank Alkhair Capital T'azur Company
3	Abdulrahman Hamad Al Harkan	Executive	4	Saudi Home loans Co. (SHL)
4	Hathloul Saleh Al Hathloul	Independent	4	Saudi Home loans Co. (SHL) Alkhair Investment Bank Alkhair Capital
5	Khalid Abdullah Al Shelash	Non-executive	3	
6	Tariq Mohamed Al Jarallah	Independent	4	
7	Abdul Aziz Abdullah Al Shelash	Independent	4	
8	Majid Romi Al Romi	Independent	3	
9	Ahmed Mohammed Al Dahash	Independent	3	
10	Majed Abdul Rahman Al Qasim	Independent	4	Alkhair Investment Bank
11	Saleh Mrikhan Al Mutairi	Independent	4	

15-2 Board Meetings Register

The Board meets at the request of the Chairman, and at other times contingent on specific requirements. The Board held four meetings in 2015 according to the attendance record shown below:

#	Name	15-Feb	19-May	15-Jun	30-Dec
1	Yousef Abdullah Al Shelash	✓	✓	✓	✓
2	Abdullatif Abdullah Al Shelash	✓	✓	✓	✓
3	Abdulrahman Hamad Al Harkan	✓	✓	✓	✓
4	Hathloul Saleh Al Hathloul	✓	✓	✓	✓
5	Khalid Abdullah Al Shelash	✓	x	✓	✓
6	Tariq Mohamed Al Jarallah	✓	✓	✓	✓
7	Abdul Aziz Abdullah Al Shelash	✓	✓	✓	✓
8	Majid Romi Al Romi	x	✓	✓	✓
9	Ahmed Mohammed Al Dahash	✓	x	✓	✓
10	Majed Abdul Rahman Al Qasim	✓	✓	✓	✓
11	Saleh Mrikhan Al Mutairi	✓	✓	✓	✓



15-3 Board Committees

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

15-3-1 The Executive Committee, Consisting of:

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



Committee's Responsibilities and Meetings:

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 proper 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 strategic 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 six meetings in 2015.

15-3-2 The Audit Committee, Consisting of:

- | | |
|-------------------------------|----------|
| 1. Tariq Mohamed AlJarallah | Chairman |
| 2. Majed Abdulrahman Al Gasim | Member |
| 3. Hathloul Saleh Al Hathloul | Member |
| 4. Majed Romi Al Romi | Member |

The Committee's Responsibilities and Meetings:

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 4 meetings during 2015. The committee discussed and reviewed the quarterly and annual financial statements for the year 2015 and passed their recommendations to the Board.

15-3-3 The Nominations and Remuneration Committee, Consisting of:

- | | |
|----------------------------------|----------|
| 1. Majed Abdulrahman Al Gasim | Chairman |
| 2. Yousef Abdullah Al Shelash | Member |
| 3. Khalid Abdullah Al Shelash | Member |
| 4. Abdulaziz Abdullah Al Shelash | Member |





Committee's 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 four meetings during 2015.

16 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 2015.

Description (in Saudi Riyal)	Executive Board members	Non-executive/independent Board members	Senior executives (including general manager and CFO)
Salaries and compensation	-	-	8,728,848
Allowances	-	-	3,476,097
Periodic and annual bonuses	-	-	-
Incentive plans	-	-	698,700
Any other compensations or incentives paid monthly or annually	-	-	-

17 Description of any Interest in contractual securities and underwriting rights of Board Directors, 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 fiscal year

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 beginning of the year	Nature of Ownership
Yousuf Abdullah Al Shelash	Chairman	1,000	0.0001%	0	1,000	0.0001%	Director
Hathloul Saleh Al Hathloul	Board Member	4,729,482	0.4379%	3,299,368	8,028,850	0.7434%	Director
Khalid Abdullah Al Shelash	Board Member	72,755,976	6.7367%	(3,132,683)	69,623,293	6.4466%	Director
		957	0.0001%	-	957	0.0001%	Director owned by direct relative
Majed Abdul Rahman Al Qasim	Board Member	4,194,550	0.3884%	(1,350,000)	2,844,550	0.2634%	Director
		639,154	0.0592%	-	639,154	0.0592%	Director owned by direct relative
Tariq Mohamed Al Jarallah	Board Member	3,000	0.0003%	-	3,000	0.0003%	Director
Abdul Aziz Abdullah Al Shelash	Board Member	4,199,550	0.3888%	(1,350,000)	2,849,550	0.2648%	Director
Majid Romi Al Romi	Board Member	4,194,550	0.3884%	(1,350,000)	2,844,550	0.2634%	Director
Abdullatif Abdullah Al Shelash	Board Member	8,137,550	0.7535%	0	8,137,550	0.7535%	Director
Ahmed Mohammed Al Dahash	Board Member	2,005,104	0.1857%	-	2,005,104	0.1857%	Director
Saleh Mrikhan Al Mutairi (in person)	Board Member	-	0.0000%	-	-	0.0000%	Director
Saleh Mrikhan Al Mutairi (as a representative of GOSI)	Board Member	32,241,457	2.9853%	(32,240,457)	1,000	0.0001%	Owned by General Organization for Social Insurance
Abdulrahman Hamad Al Harkan	Board Member	10,000	0.0009%	-	10,000	0.0009%	Director
Ahmed Saleh Salman Al Dehilan	Internal Audit Manager	80,000	0.0074%	-	80,000	0.0074%	Director
TOTAL		133,192,330	12.3326%	(36,123,772)	97,068,558	8.9878%	





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

Name	Notification Date	No. of Shares	Ownership Percentage	Variance in percentage of shares during the year	Nature of ownership
Point Company Limited	20-Sep-14	57,120,995	0		Indirect: Ownership of a private company
	29-Dec-14	55,179,721	0	(0)	Indirect: Ownership of a private company

19 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 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 should be noted that the Company has 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 General Assembly meetings. The adoption of cumulative voting rights is still under review, as the Company's bylaws have not included rules on cumulative voting, and it will be included in the agenda of the next General Assembly meeting in 2016. However, two clauses are not applicable to the Company. These are: clause (d) of the same Article 6 which states that investors who are judicial persons and who act on behalf of others, e.g. investment funds- shall disclose in their annual reports their voting policies, actual voting, and corporate governance regulations 11 including any material conflict of interest that may affect the fundamental rights of their investments. In addition clause (i) of Article 12 states that each legal proxy who is entitled under the Company's Articles of Association to appoint representatives to the Board of Directors, is not entitled to vote on matters concerning other members of the Board of Directors.

20 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 2015 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.

21 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.

21-1 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.

Advanced Information Systems

The Company builds its advanced systems to comply with international standards, establishing effective internal controls that produce accurate and transparent information.

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.

21-2 Results of the Effectiveness of the Company's Internal Controls in the Annual Audit

During 2015, 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.

22 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, including local and international investors.

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 equity shareholders, Sukuk-holders and financial analysts from local and international banks that maintain investment 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 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 of the Company website with full access to Company information.

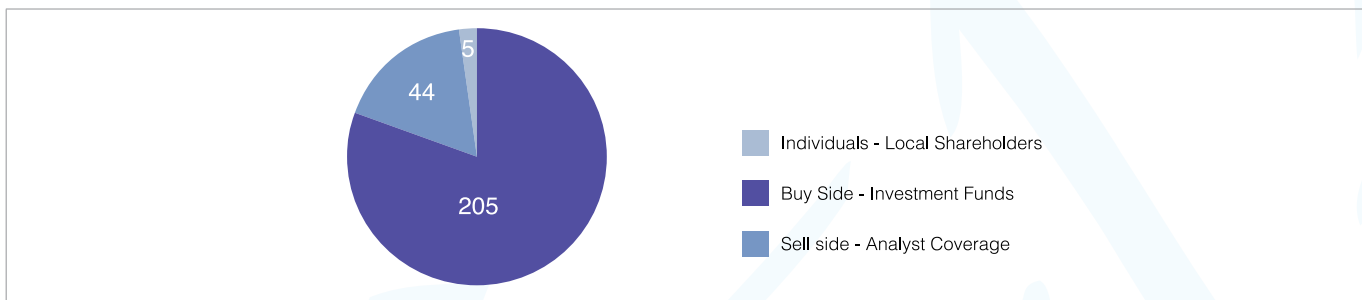
The Company invites shareholders to attend the general assembly meetings and take part in decision making. The Company announces such invitations through the website of the Saudi exchange market (TADAWUL), the Company's website and daily newspapers. The Company facilitates automated systems to ensure 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 voted in the twelfth ordinary general assembly meeting held on 15 June 2016.





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

An illustration showing Dar Al-Arkan meetings with its investors during 2015



23 Human Resources

23-1 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 2015 is 334 employees.

23-2 Senior Management Biographies:

Dr. Abdulrahman Hamad Al Harkan –Chief Executive Officer

Dr. Abdulrahman Al Harkan is a Senior Executive in the area of Real Estate Development with more than 27 years of experience in Senior Management Positions, Board Memberships and key academic roles in the Kingdom of Saudi Arabia. He holds a Bachelor, Master’s and Doctoral degrees in Architecture from Kind Saud University and from the University of Michigan, Ann Arbor, Michigan, USA. Prior to joining Dar Al-Arkan, he was Dean of Admissions, CEO



of Business Development and Secretary General of the Endowment at King Saud University and Vice President of the Real Estate Division of the Savola Group. He has served in several Board positions at many institutions.

Nedal Sinan—Chief Operations Officer

Mr. Nedal Sinan is the Chief Operations Officer of Dar Al-Arkan. He supervises the effective implementation of the Company's strategy by coordinating the activities of the Development, Commercial, Construction and Asset Management Divisions. During his extensive 32 years of experience in Real Estate and Construction industries, he was responsible for various prominent, multi-billion projects for both public and private sector institutions. Mr. Nedal was graduated in 1982 as an electrical engineer from Louisiana Tech University, USA and has occupied leadership positions in various GCC countries, including Regional General Manager of Al Hamed Development & Construction, General Manager of Dar Investment & Development, Managing Partner of Prime Engineering Enterprises, Director of Development and Project Management at Qatar's Tanween Real Estate Development Company and Acting Chief Operating Officer of Qatar Project Management Company.

Mika Toivola - Chief Financial Officer

Mr. Mika Toivola is the Chief Financial Officer of Dar Al-Arkan. He has over 25 years' experience in various multinational organizations, covering the Middle East, Scandinavia, Western Europe, Singapore and the USA. Prior to joining Dar Al-Arkan, he was Group CFO at Al Arrab General Contracting of Saudi Arabia, Skanska Oy and the CEO of ABB Drives Group. Mr. Mika has a Master's Degree in National Economics from the University of Jyvaskyla in Finland as well as a Bachelor's Degree Civil Engineering, construction management section. He Specializes in Corporate Finance management, M&A and is a recognized expert in the Sukuk markets.

Richard David Thomas – Chief Commercial Officer

Mr. Richard Thomas is the Chief Commercial Officer at Dar Al-Arkan. He holds a Bachelor's Degree in Property Administration (BPA) from Auckland University, New Zealand. Before joining Dar Al-Arkan, he worked as the Director of Real Estate Services at Saudi Real Estate Company (Al Akaria). Prior to that, he worked as a Director of Corporate and Investor Services at CORE Commercial Real Estate Services (Dubai). Also he worked as a Director of Property Consultancy Services at T&T Property Consultancy Services (Dubai/Melbourne/Riyadh).





Wesam Al Hazmi - Chief Asset Management Officer

Mr. Wissam Al Hazmi is the Chief Assets Management Officer at Dar Al-Arkan. He is supervising the implementation of the company's strategy in an effective way through coordinating the activities of the leasing departments, utilities maintenance and services, and real estate management activities. He has over 17 years of experience in real estate development and operation sectors. Mr. Wissam Al Hazmi was graduated in 1997 from the management and economy department at King Abdul Aziz University in Saudi Arabia. Before joining Dar Al-Arkan, Mr. Hazmi occupied key positions in many companies and mega projects, including but not limited to the Director of Real Estate management at Saudi Emaar, King Abdullah Economic City and Director of the Western region in Arabian Centers Company Ltd. for managing and operating commercial and real estate centres.

Husam Al Ramahi - Chief Project Management Officer

Mr. Husam Al Ramahi is the Chief Project Management Officer of Dar Al-Arkan. He has over 18 years of extensive and diversified experience across multiple industries (including Real Estate Development, Construction, Manufacturing and Service). Prior to Dar Al-Arkan, he held progressive management positions at leading international organizations including Honeywell-(USA), Rockwell Automation/Allen Bradley - (USA) as well as the multinational construction conglomerate Saudi Bin laden Group (SBG-KSA). Mr. Husam holds a B.S Degree in Industrial Engineering & Management and an array of professional certifications including notably the American Society for Quality (ASQ)-Certified Six Sigma Black Belt (CSSBB), Certified Quality Engineer (CQE) and Certified Quality Auditor (CQA). He is also a certified Lean Business Project Leader, Certified Global Benchmarking/Best Practices Assessor & Implementer, and Certified Project Manager for Workgroups and a Certified Internal Trainer/Coach of ISO 9001 & ISO/TS-16949.

Saleh Al Buttey - Chief Executive Officer, Shams ArRiyadh Project

Mr. Saleh Al Buttey is the Chief Executive Officer of Shams Riyadh project that Dar Al-Arkan is developing. He has over 23 years of experience in the area of real estate investment and development, industry, and commercial services and businesses. Mr. Saleh has a bachelor degree in mechanical engineering from Umm Al Qura the University and completed postgraduate studies in the field of the management.



Before joining Dar Al-Arkan, Mr. Saleh occupied many leadership positions such as the Deputy Executive Officer of Al-Othaim Investment and Real Estate Development, the General Director of Al Obaikan investment and real estate development, as well as the General Manager of Rafal Environmental Services Ltd., several positions at Al-Babtain Groupe, Board Member of one of Mohammad Al-Abd Al-Aziz Al-Rajhi Companies (Fayhaa Al-Qassim), and a member of various committees.

Isidro Beccar Varela - Commercial Advisor

Mr. Isidro is the Commercial Advisor of Dar Al-Arkan. He has over 20 years of Global experience (US, Europe, Latin America and Middle East). He was previously a Development Director at Qatary Diar, leading the operation of a multi-billion dollar real estate portfolio in Egypt. He was also Senior Vice President at Sol Media (one of the largest hotel chains in Europe), Regional Director at Playground/Intrawest and CEO of a large mixed use development project in Buenos Aires, Argentina. Mr. Isidro studied economics, graduated as a lawyer and started his professional life working for Sullivan & Cromwell in New York.

Nabil Al Ghouli - Project Director

Mr. Nabil Al Ghouli is the Project Director of Shams ArRiyadh project with over 35 years' experience in the construction industry. He holds a Degree in Engineering from King Abdullah University and is an accredited Project Management Professional by the University of Western Ontario. He also studied Business Administration at the University of Bath in the UK. Prior to joining Dar Al-Arkan's senior team, he held senior positions at Union Properties United Trading & Steel Installation Company in Amman, Jordan.

Badr Al Harbi - Chief Shared Services Officer

Mr. Badr Al Harbi is the Chief Shared Services Officer of Dar Al-Arkan. He supervises the effective implementation of the Company's strategy by coordinating the activities of HR, Personnel, Legal Affairs, and IT departments. Mr. Bader holds an MBA from Cambridge International University in the UK with focus on Planning and Organizational Management. He, also, has a Bachelor's Degree in Engineering from the American University. Mr. Bader has over 17 years of experience in different fields including support services, facility and utility management. Prior to joining Dar Al-Arkan, he occupied high level positions such as the General Director of Saudi Building Materials Company Ltd., (SBM) and the Country Director of Support Services at the Saudi Post. He also occupied senior positions in Arabian Cement, Riyadh Cement and Saudi White Cement companies.





Abdulaziz Al Dhuayan - Chief Communications Officer

Mr. Abdul-Aziz is the Chief Communications Officer of Dar Al-Arkan. He was graduated from King Fahad University of Petroleum and Minerals after getting the BA in Marketing. During his career, Mr. Abdulaziz gained many credentials and valuable experience in the field of marketing, public relations, branding and advertising. Prior to his joining to Dar Al-Aran, Mr. Abdulaziz occupied senior positions in banks sector as he worked in Al Rajhi Bank, SAMBA and Riyadh Bank.

24 Quality Assurance

The Quality Assurance Department is focused on adopting and establishing total quality management principles, which aim to improve product and service quality and customer satisfaction. The department's activities focus on establishment, activation and improvement of a Quality Management System (QMS) which consists of policies and procedures and effective implementation and monitoring of the requirements of international quality management standard ISO 9001:2008 and other modern systems for quality management and performance improvement.

24-1 Quality Assurance Department achievements in 2015

- Continued the efforts to re-align the QMS to match the changes In the new organizational structure and added new procedures to the system as appropriate.
- Published all approved procedures and related forms to the intranet for efficient and reliable access by all employees.
- Maintained ISO 9001 certificate and successfully completed two independent quality surveillance audits.
- Planned and conducted two quality audit program cycles for all documented procedures.
- Conducted nine quality awareness and performance improvement training seminars including ISO 9001, Process Mapping and Functional training.
- Conducted two MRM (Management Review Meetings) for quality systems.
- Trained and engaged six employees from other departments to conduct internal audits for quality.

25 Environmental and Social Responsibility

Contributing to the sustainable growth of local communities and environmental protection is of extreme importance to Dar Al-Arkan as a leading real estate developer that always strives for the improvement of society's quality of life. All DAAR's self-sustained and integrated communities consider the dominant social values and emphasize the importance of socio-economic, health, security, environmental and cultural factors in the Kingdom while offering integrated public, social, recreational and commercial services. As part of Company's social responsibility, DAAR adopts the philosophy of maintaining a healthy environment with lush green landscapes and pedestrian-friendly roads, thus reducing pollution rates as well as creating greater public areas to promote recreational activities. In line with our obligations for social responsibility, the Company is developing real estate projects that contribute to society's welfare. One exceptional project is Qasr Khozam and the development of the surrounding slums in the center of Jeddah city, which is being developed in collaboration with government authorities. The project is intended to provide integrated urban living with a healthy and safe environment that offers a unique living experience as well as leveraging the economic value of the region, providing more room for investment opportunities and securing thousands of job opportunities. Further to its social responsibility, DAAR has linked the Shams Al Arous project to the Palestine road extension to the East of the Al Haramain road in Jeddah city. The road is 4 kilometers long and 52 meters wide at a cost of SR 30 million.

Dar Al-Arkan understands well its responsibility towards society and the importance of interacting with real estate issues. We address real estate and housing sector issues by analyzing, diagnosing and offering innovative solutions through participation in specialist exhibitions and conferences and by supporting related real estate events and activities as well as making direct contact with professionals in the real estate and related sectors. This exchange of knowledge and experience contributes to the development of the real estate sector in the region. Furthermore, DAAR extends bridges with different segments of the community and clients to identify their requirements and offer them real estate schemes which respond to market needs.

Dar Al-Arkan is not only committed to its social responsibilities in terms of conducting projects and interacting with sector issues, but it also runs the business in a way that cares about employees, develops their capabilities, and offers them job security ensuring a decent life style for staff and their families. By holding internal meetings during public holidays and the holy month of Ramadan, this spreads a spirit of well-being. DAAR manages to maintain a healthy and good working environment for increased productivity and improved quality of performance.





26 Events and Sponsorships during 2015

26-1 Ramadan Annual Celebration for DAAR Employees 2015

As part of its commitment to build strong relationships and promote cohesion between employees, DAAR held its annual IFTAR party at the Marriott Hotel – Makarem venue. The ceremony was honored by the attendance of the Company's Chairman, Mr. Yousef Abdullah Al Shelash, the Board of Directors and executive managers. The party allowed the Company's employees and management teams to socialize in festive surroundings, which further strengthened the family atmosphere that the Company has long enjoyed.

26-2 Al-Qasr Mall Hosts Riyadh Shopping and Entertainment Festival 2015

For the second time running, the organizing committee of the Riyadh Shopping and Entertainment Festival 1436 H (2015G), selected Al-Qasr Mall of DAAR to sponsor and hold the opening ceremony of the Festival under the auspices of HRH Prince Faisal Bin Bandar Bin Abdulaziz, Governor of Riyadh on Thursday June 7th, 2015.

The Organizing Committee of the Festival at the Riyadh Chamber of Commerce and Industry has voted "Al-Qasr Mall" for hosting the opening ceremony this year after the great success of the opening ceremony of the Festival last year.

26-3 Dar Al-Arkan, the Diamond Sponsor of the 18th Riyadh Real Estate and Urban Development Exhibition (Restatex), 2015

As a diamond sponsor, DAAR participated in Restatex – the Riyadh Real Estate and Urban Development Exhibition in its 18th edition that was held in the Riyadh International Convention and Exhibition Center on 26th April 2015. DAAR showcased its pioneering achievements in urban real estate development and its completed projects as well as offering wide expertise in the real estate market, particularly in the housing sector. The DAAR marketing booth was the largest in Restatex with an area of more than 680 square meters.

27 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.

28 Penalties and Fines

In 2015, Dar Alarkan Real Estate Development Company (DAAR) received a fine of SR 20,000 (Twenty Thousand Saudi Riyals) due to its violation of clause (A) of Article (40) of the Listing Rules as well as sub-clause (5) of clause (B) of clause (1) of the Instructions for Companies' Announcements Related to General Assemblies. The company did not disclose in its announcement on 15/05/2014 regarding inviting its shareholders to attend the eleventh ordinary general assembly's meeting about all the details in the agenda which are related to the approval of the contracts and businesses in which the board member has a direct or indirect benefit. The company's announcement did not include the amount of transaction, name of the related board member and the nature of the transaction in the part related to the approval request on the transactions between the company and Saudi Home Loans "SHL". It also violated clause (B) of Article (40) of the Listing Rules as the company was late to disclose to the public about inviting its shareholders to attend the eleventh ordinary general assembly meeting on 15/05/2014.

29 Preparation status and readiness of IFRS

Following Saudi Organization for Certified Puplic Accountants (SOCPA) guidelines, all listed entities including Dar Al-Arkan, need to comply and adopt International Financial Reporting Standard (IFRS) for the financial periods starting from 1 January 2017.

In this regard, we state that to support our international capital market transactions with more detailed and comparable financial statements we have reported IFRS compliant audited financials for the year ended 31 December 2008. Since then, in parallel without statutory SOCPA audited financials, we have been issuing IFRS compliant consolidated audited financials to the investment community for their improved understanding, with comparatives and associated financial analysis. We also have issued consolidated audited IFRS financial statements for the year ended 31 December 2015.

Based on our preparations and compliance with IFRS requirements, we do not expect any problems or delays in adopting any additional disclosures or reclassifications which may be required for any future periods. Further, the Company is fully prepared for implementing the International Financial Reporting Standards on 1/1/2017.





Best Residential Developer
in Saudi Arabia 2015
by Euromoney



Real Estate Innovation in
Saudi Arabia 2015 (Shams ArRiyadh)
by Entrepreneur Middle East

30 Statement of Regulatory Payments due During 2015

Item	in (Saudi Riyals)	Description	Type of payment
Social Insurance	1,779,294	To be paid as per the rules of GOSI. Paid in full	Regular requirement
Government Charges	1,160,072	Charges for building licenses, subscription for Chamber of Commerce, fees for work permits, renewal of Iqama and others. Paid in full	Regular requirement
Zakat	57,902,985	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
CMA	20,000.00	violation of clause (A) of Article (40) of the Listing Rules as well as sub-clause (5) of clause (B) of clause (1) of the Instructions for Companies' Announcements Related to General Assemblies.	Fine
Total	60,862,351		

31 Awards in 2015

31-1 "Best Residential Developer in Saudi Arabia 2015" by "Euromoney"

DAAR has been recognized by "Euromoney", the international finance magazine, as the "Best Residential Developer in Saudi Arabia 2015" according to the 11th annual global Real Estate Survey conducted by the magazine. To select this year winners, "Euromoney" canvassed the opinions of more than 2000 senior real estate bankers, developers, investment managers, corporate end-users, and advisory firms over 70 countries worldwide. Through a series of the professional standards, the survey determined those organizations that exhibited the ability to innovate and make the best use of inherent strengths of their organization and their market incentives. According to the survey, DAAR managed to attain growth and cope with Saudi Arabia's fast-growing, young demographic.

31-2 “Innovation in Real Estate Development 2015” by “The Entrepreneur” for its Landmark Project of Shams ArRiyadh

DAAR won the “Innovation in Real Estate Development 2015” award granted by “The Entrepreneur” magazine for developing its innovative project of “Shams ArRiyadh” North West of Riyadh. The magazine praised Shams ArRiyadh for its creative design of the master plan offering distinguished habitat options, attractive environment, and quality services for the residents and visitors. DAAR divided the project into completely integrated zones: the first comprises an independent neighborhood with self-centered services, the second includes a compound accommodating SABIC employees, and the third zone is a gated compound with integrated services. The fourth zone consists of two segments; a multi-purpose commercial area overlooking King Khalid Road that is configured to be an urban center offering unprecedented services in the city of Riyadh, in addition to supporting business, hotel, health and education services. The other segment is designated as a full-serviced diplomatic village, while the fifth and final zone of the project includes the palace area overlooking the valley.

31-3 The “Real Estate Company of the Year – Saudi Arabia, 2015” by “The European”

DAAR was named “Real Estate Company of the Year-Saudi Arabia, 2015” by “The European” magazine, the globally recognized periodical which specializes in finance and business. The magazine acknowledged that the insight, vision and brilliant success of DAAR in the Saudi real estate market as well as its leading role in the real estate development, property management and real estate investment, has nominated the company for the well-deserved award. “The European” highlighted DAAR’s ability to innovate and develop iconic projects that meet customer demand in a changing environment

31-4 The “Corporate Governance Company of the Year-Mena 2015” by “The European”

For the third year in a row, DAAR won the “Corporate Governance Company of the Year- MENA 2015” by “The European”, the globally recognized magazine which specializes in finance and business. DAAR received the award in recognition of implementing best practices of interaction with stakeholders and investors around the world, in addition to DAAR’s commitment to transparency, full disclosure and quality of internal audit system.



Real Estate Company of The Year
Saudi Arabia 2015
by The European



Corporate Governance Company
of The Year MENA 2015
by The European



Best Residential Developer in Saudi Arabia 2015 by Euromoney



Real Estate Innovation in Saudi Arabia 2015 (Shams ArRiyadh) by Entrepreneur Middle East



Real Estate Company of The Year Saudi Arabia 2015 by The European



Corporate Governance Company of The Year MENA 2015 by The European



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

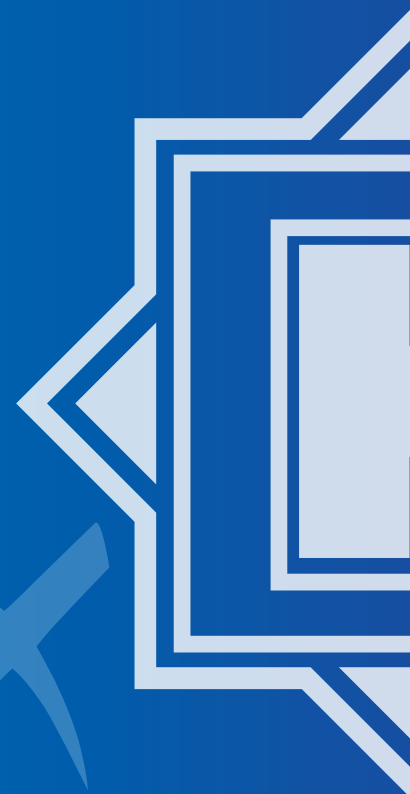


The Largest Residential Project (Al-Qaser) in the Kingdom of Saudi Arabia 2011



ANNUAL REPORT 2015

Dar Al-Arkan Real Estate Development Company



Consolidated Financial Statements



ANNUAL REPORT 2015

Dar Al-Arkan Real Estate Development Company

Dar Al-Arkan **Real Estate Development Company**

CONSOLIDATED FINANCIAL STATEMENTS
AND AUDITORS' REPORT FOR THE FISCAL
YEAR 2015

**Dar Al Arkan Real Estate
Development Company**
SAUDI JOINT STOCK COMPANY

CONSOLIDATED FINANCIAL
STATEMENTS AND AUDITORS'
REPORT FOR THE YEAR ENDED
31 DECEMBER 2015



Mohammad A. Al-Hajj
Certified Public Accountants
License No : 119
Independent Member of ICA Association International

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, 2015, and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended, and notes 1 to 20 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, 2015, 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.

For Al-Kharashi Co.

Suliman Al-Kharashi
License No. (91)



Rabi Al-Thani 4, 1437H
January 14, 2016

Mohammad A. Al-Hajj

Certified Public Accountant
License No. (119)



**CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2015**

	Notes	2015 SR 000	2014 SR 000
ASSETS			
Current Assets			
Cash and cash equivalents		1,001,061	1,135,196
Short term deposit with banks		-	1,175,000
Accounts receivable, net	(5)	1,948,687	1,747,778
Prepaid expenses and others	(6)	974,809	816,697
Due from a related party	(7 a)	-	143
Developed land – short-term		437,185	794,145
Total Current Assets		4,361,742	5,668,959
Non-Current Assets			
Projects in progress – long-term	(8)	8,651,076	8,916,056
Investments in land under development	(9)	5,982,401	5,445,630
Developed land – long-term		1,963,764	1,949,764
Investment properties, net	(10)	3,501,637	3,567,451
Investment in associates	(11)	776,207	763,407
Property and equipment, net	(12)	68,416	71,279
Total Non-Current Assets		20,943,501	20,713,587
TOTAL ASSETS		25,305,243	26,382,546

**Dar Al Arkan Real Estate
Development Company**
SAUDI JOINT STOCK COMPANY
CONSOLIDATED FINANCIAL
STATEMENTS AND AUDITORS'
REPORT FOR THE YEAR ENDED
31 DECEMBER 2015


Managing Director


Chief Financial Officer

The accompanying notes form an integral part of these 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 2015**CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2015****LIABILITIES AND EQUITY****Current Liabilities**

Islamic borrowings – current portion	(13)	1,531,945	2,148,064
Due to a related party	(7 b)	194,253	195,612
Accounts payable	(14)	173,433	167,680
Accrued expenses and others	(15)	697,349	826,566
Total Current Liabilities		2,596,980	3,337,922

Non-Current Liabilities

Islamic borrowings	(13)	4,760,617	5,458,564
Provision for end-of-service indemnities	(16)	20,973	18,544
Total Non-Current Liabilities		4,781,590	5,477,108
Total liabilities		7,378,570	8,815,030

Shareholders' Equity

Share capital	(17)	10,800,000	10,800,000
Statutory reserve		978,300	942,384
Retained earnings		6,148,373	5,825,132
Total Shareholders' Equity		17,926,673	17,567,516

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY**25,305,243** **26,382,546**


Managing Director



Chief Financial Officer

**CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015**

	Notes	2015 SR 000	2014 SR 000
Revenues from operations		2,211,349	3,056,060
Cost of operations		(1,228,117)	(1,756,805)
Gross profit	(4)	983,232	1,299,255
Operating expenses:			
General, administrative, selling and			
marketing expenses		(204,238)	(237,453)
Depreciation	(12)	(3,593)	(3,691)
Amortisation of deferred charges	(13 a)	(35,993)	(38,197)
Income for the year from operating activities		739,408	1,019,914
Other Income / (expenses) :			
Share of income from investment in associates	(11)	12,800	16,000
Islamic Murabaha charges		(105,353)	(111,282)
Islamic Sukuk charges		(279,448)	(382,012)
Other income, net		1,075	46,895
Income for the year before Zakat		368,482	589,515
Zakat provision		(9,325)	(14,820)
Net income for the year		359,157	574,695
Earnings per share for the year (in Saudi Riyal)	(18)		
From operating activities		0.68	0.94
From net income		0.33	0.53

**Dar Al Arkan Real Estate
Development Company**
SAUDI JOINT STOCK COMPANY
CONSOLIDATED FINANCIAL
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REPORT FOR THE YEAR ENDED
31 DECEMBER 2015


Managing Director


Chief Financial Officer

**Dar Al Arkan Real Estate
Development Company**

SAUDI JOINT STOCK COMPANY

CONSOLIDATED FINANCIAL
STATEMENTS AND AUDITORS'
REPORT FOR THE YEAR ENDED
31 DECEMBER 2015**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015**

	2015	2014
	SR 000	SR 000
CASH FLOWS FROM OPERATING ACTIVITIES		
Income for the year before Zakat	368,482	589,515
Adjustment for:		
Depreciation	72,818	56,492
Amortisation of deferred charges	35,993	38,197
Provision for end-of-service indemnities	4,537	2,707
Provision for doubtful debts	3,804	9,736
Gain on disposal of property and equipment	(142)	(30)
Share of income from investment in associates	(12,800)	(16,000)
Changes in operating assets and liabilities		
Accounts receivable	(204,713)	(393,217)
Prepaid expenses and others	15,077	29,542
Due from a related party	143	-
Projects in progress – short-term	-	5,350
Developed land	342,960	119,815
Accounts payable	5,753	(99,418)
Accrued expenses and others	(80,639)	2,234
Cash generated from operations	551,273	344,923
Zakat paid	(57,903)	(10,730)
End-of-service indemnities paid	(2,108)	(1,511)
Net cash generated from operating activities	491,262	332,682



Managing Director



Chief Financial Officer

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015**

CASH FLOWS FROM INVESTING ACTIVITIES

Projects in progress – long-term	264,980	(135,599)
Investments in land under development	(536,771)	(581,328)
Advance payments to purchase land	(173,189)	(362,038)
Investment properties	(3,411)	(886,435)
Proceeds from disposal of property and equipment	142	30
Purchase of property and equipment	(730)	(600)
Net cash used in investing activities	(448,979)	(1,965,970)

CASH FLOWS FROM FINANCING ACTIVITIES

Islamic borrowings	(1,350,059)	1,664,986
Short term deposit with banks	1,175,000	(1,175,000)
Due to a related party	(1,359)	(634)
Net cash (used in) /generated from financing activities	(176,418)	489,352
(Decrease) in cash and cash equivalents	(134,135)	(1,143,936)
Cash and cash equivalents, beginning of the year	1,135,196	2,279,132
CASH AND CASH EQUIVALENTS, END OF THE YEAR	1,001,061	1,135,196

Non-cash transactions related to transfer of investment property (Note 10)

Transfer of projects under progress-short-term to investment properties	39,179
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**Dar Al Arkan Real Estate
Development Company**
SAUDI JOINT STOCK COMPANY

CONSOLIDATED FINANCIAL
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REPORT FOR THE YEAR ENDED
31 DECEMBER 2015



Managing Director



Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

Dar Al Arkan Real Estate Development Company

SAUDI JOINT STOCK COMPANY

CONSOLIDATED FINANCIAL
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REPORT FOR THE YEAR ENDED
31 DECEMBER 2015

	<u>Share Capital</u>	<u>Statutory Reserve</u>	<u>Retained Earnings</u>	<u>Total Shareholders' Equity</u>
	SR 000	SR 000	SR 000	SR 000
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	<u>10,800,000</u>	<u>942,384</u>	<u>5,825,132</u>	<u>17,567,516</u>
2015				
Balance as at 1 January 2015	10,800,000	942,384	5,825,132	17,567,516
Net income for the year	-	-	359,157	359,157
Transfer to statutory reserve	-	35,916	(35,916)	-
Balance as at 31 December 2015	<u>10,800,000</u>	<u>978,300</u>	<u>6,148,373</u>	<u>17,926,673</u>



Managing Director



Chief Financial Officer

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 2015.

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%
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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 year of the retirement/disposal except those that relate to sale and leaseback arrangements.

2-7 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 year 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 year 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 year 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 year. 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	
	2015 SR 000	2014 SR 000
REVENUES FROM OPERATIONS		
Sale of residential properties	-	8,000
Sale of land	2,075,265	2,923,431
Leasing of properties	136,084	124,629
Total	2,211,349	3,056,060
COST OF OPERATIONS		
Residential properties	-	5,240
Land	1,158,892	1,694,764
Leasing of properties	69,225	56,801
Total	1,228,117	1,756,805
GROSS PROFIT		
	-	-
Residential properties	-	2,760
Land	916,373	1,228,667
Leasing of properties	66,859	67,828
Total	983,232	1,299,255

5 ACCOUNTS RECEIVABLE, NET

	<u>2015</u>	<u>2014</u>
	SR 000	SR 000
Customers	1,966,706	1,761,993
Provision for doubtful debts	(18,019)	(14,215)
Total	<u>1,948,687</u>	<u>1,747,778</u>

Accounts receivable includes about 97% (31 December 2014: 95%) receivables against land sales which are fully secured against such land parcels.

6 PREPAID EXPENSES AND OTHERS

	<u>2015</u>	<u>2014</u>
	SR 000	SR 000
Advance payments to purchase land	944,627	771,438
Prepaid expenses and other assets	11,290	21,713
Advance payments to contractors	9,432	12,003
Employees' advances and receivables	5,944	5,865
Advance payments to suppliers	2,676	2,461
Short term investment- trading (note 6a)	804	3,181
Others	36	36
Total	<u>974,809</u>	<u>816,697</u>

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	
	2015	2014
	SR 000	SR 000
Balance, beginning of the year	3,181	-
Additions (purchase/sold)	3,556	2,360
	6,737	2,360
Realised gains	330	2,462
Commissions	-	(141)
	7,067	4,681
Transfer/withdrawals	(6,263)	(1,500)
Balance, end of the year	804	3,181

Investment includes SR nil as at 31 December 2015 (31 December 2014 SR 3.2 million) representing cash deposit held with the fund manager. The funds are expected to be invested in the subsequent years.

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	
	2015	2014
	SR 000	SR 000
Balance, beginning of the year	143	143
Expenses incurred	-	50
Collections/adjustments	(143)	(50)
Balance, end of the year	-	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	
	2015	2014
	SR 000	SR 000
Balance, beginning of the year	195,612	196,246
Repayment of advances	(2,319)	(1,854)
Profit charged	960	1,220
Balance, end of the year	194,253	195,612

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: 14), are as follows:

	For the year ended 31 December	
	2015	2014
	SR 000	SR 000
Balance, beginning of the year	115	1,296
Amount paid during the year	-	(1,181)
Balance, end of the year	115	115

(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 subleasing of investors properties. The details of the transactions are as follows:

	For the year ended 31 December	
	2015	2014
	SR 000	SR 000
Fees, lease rentals charged during the year	-	4,000
Amount paid during the year	-	(4,000)
Balance, end of the year	-	-

For the year ended 31 December 2015 and 2014, no other transactions were entered with entities that have common Board Members or Shareholders to the Group.

8 PROJECTS IN PROGRESS

Projects in progress- long-term:

	<u>2015</u>	<u>2014</u>
	<u>SR 000</u>	<u>SR 000</u>
Projects in progress	8,651,076	8,916,056
Total	<u>8,651,076</u>	<u>8,916,056</u>

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 nil (31 December 2014: 33.32 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 for land development. The amount includes SR 364.5 million (31 December 2014: SR 364.5 million) as advance paid against new project.

10 INVESTMENT PROPERTIES, NET

	For the year ended 31 December	
	2015 SR 000	2014 SR 000
COST		
At beginning of the year	3,714,149	2,788,535
Transfers	-	39,179
Additions	3,411	886,435
At end of the year	3,717,560	3,714,149
ACCUMULATED DEPRECIATION		
At beginning of the year	146,698	93,897
Charged during the year	69,225	52,801
At end of the year	215,923	146,698
CARRYING AMOUNT AT THE END OF THE YEAR	3,501,637	3,567,451

Included within investment properties is land with an original cost of SR 578.1 million (31 December 2014: 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	
	2015 SR 000	2014 SR 000
Balance, beginning of the year	763,407	747,407
Share of income	12,800	16,000
Balance, end of the year	776,207	763,407

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	28,660	
Balance, end of the year	776,207	

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.
- (i) The KDC investment include SR 250 million as an exclusive right to participate in 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 believes 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 SR 000	Leasehold improvements SR 000	Vehicles SR 000	Machinery and tools SR 000	Office Equipment SR 000	Total SR 000
Cost						
Balance at 1 January 2015	109,145	19,037	9,136	13,536	40,718	191,572
Additions for the year	-	-	-	2	728	730
Disposal for the year	-	-	(689)	(29)	-	(718)
Balance at 31 December 2015	109,145	19,037	8,447	13,509	41,446	191,584
Accumulated Depreciation						
Balance at 1 January 2015	39,107	19,033	9,134	13,479	39,540	120,293
Depreciation for the Year	3016	4	-	30	543	3,593
Disposal for the year	-	-	(689)	(29)	-	(718)
Balance at 31 December 2015	42,123	19,037	8,445	13,480	40,083	123,168
Net book value 31 December 2015	67,022	-	2	29	1,363	68,416
Net book value 31 December 2014	70,038	4	2	57	1,178	71,279

Included within land and buildings are land with an original cost of SR 9.50 million (31 December 2014: SR 9.50 million).

13 ISLAMIC BORROWINGS

	2015	2014
	SR 000	SR 000
Islamic Sukuk	4,312,500	5,835,638
Islamic Murabaha	2,077,435	1,878,780
	6,389,935	7,714,418
Less: Un-amortised transaction costs	(97,373)	(107,790)
Islamic borrowings – end of the year	6,292,562	7,606,628
Less: Islamic borrowings – current portion	(1,531,945)	(2,148,064)
Islamic borrowings - long-term	4,760,617	5,458,564

(a) Islamic borrowings transaction costs:

	For the year ended 31 December	
	2015	2014
	SR 000	SR 000
Balance, beginning of the year	107,790	85,744
Additions during the year	25,576	61,764
Capitalisation during the year	-	(1,653)
Amortisation charge for the year	(35,993)	(38,065)
Balance, end of the year	97,373	107,790

Analysis of borrowings:

Islamic Sukuk

This represents SR 4.3 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 Al-Arkan Sukuk Company Ltd. at 5.75% and maturing in 2018.
- 2) 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.
- 3) 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 Sukuk agreements include financial covenants, which the Group was in compliance with as at 31 December 2015.

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 12 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
2016	172,085	172,085	-
2017	130,000	97,500	32,500
2020	1,312,500	118,125	1,194,375
2023	162,850	16,200	146,650
2027	300,000	14,000	286,000
TOTAL	2,077,435	417,910	1,659,525

The facility agreements include certain financial covenants, which the Group was in compliance with as at 31 December 2015.

14 ACCOUNTS PAYABLE

	2015 SR 000	2014 SR 000
Contractors	153,315	146,075
Suppliers (a)	13,751	14,020
Advances from customers	6,095	7,283
Others	272	302
Total	173,433	167,680

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

15 ACCRUED EXPENSES AND OTHERS

	<u>2015</u>	<u>2014</u>
	SR 000	SR 000
Zakat provision (a)	555,757	604,335
Unearned revenue	38,833	67,394
Dividend payable	35,358	35,397
Islamic Sukuk charges	24,383	83,007
Accrued expenses	23,046	15,912
Islamic Murabaha charges	19,972	20,521
Total	<u>697,349</u>	<u>826,566</u>

Zakat provision

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

	<u>2015</u>	<u>2014</u>
	SR 000	SR 000
<u>Zakat base:</u>		
Share capital and statutory reserve – beginning of the year	11,742,384	11,684,914
Provisions – beginning of the year after deduction of amounts paid during the year	546,432	589,515
Adjusted net income for the year – Note 17/b	373,019	592,222
Retained earnings after dividends	5,825,132	5,307,907
Islamic Murabaha	172,085	451,394
Islamic Sukuk	4,312,500	2,812,500
Total Zakat base	<u>22,971,552</u>	<u>21,438,452</u>
Deductions:		
Total deduction after adjustment	<u>(22,622,706)</u>	<u>(22,279,170)</u>
Zakat base	<u>348,846</u>	<u>(840,718)</u>
Estimated Zakat provision for the year	<u>9,325</u>	<u>14,820</u>

b) Adjusted net income for the year:

	<u>2015</u>	<u>2014</u>
	SR 000	SR 000
<u>Adjusted net income:</u>		
Income for the year before Zakat	368,482	589,515
Provisions	<u>4,537</u>	<u>2,707</u>
Adjusted net income	<u>373,019</u>	<u>592,222</u>

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

	<u>For the year ended</u>	
	<u>31 December</u>	
	<u>2015</u>	<u>2014</u>
	SR 000	SR 000
Balance beginning of the year	604,335	600,245
Estimated Zakat for the year	9,325	14,820
Paid during the year	<u>(57,903)</u>	<u>(10,730)</u>
Estimated Zakat provision, end of the year	<u>555,757</u>	<u>604,335</u>

d) The Company has received the assessments from DZIT for the years 2003 to 2009. The Company has not received DZIT assessment for year 2010 and 2011. The filing of the consolidated zakat return for years 2012, 2013 and 2014 are currently under process.

16 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	
	2015	2014
	SR 000	SR 000
Balance, beginning of the year	18,544	17,348
Charged to expenses during the year	4,537	2,707
Paid during the year	(2,108)	(1,511)
Balance, end of the year	20,973	18,544

17 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.



18 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	
	2015	2014
	SR 000	SR 000
Earnings		
For the purpose of basic earnings per share:		
Income for the year from operating activities	739,408	1,019,914
Net income for the year	359,157	574,695
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.

19 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 policy to hedge and manage its variable commission rate risk exposures, if any, with shariah' complaint commission rate swap whenever applicable. 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

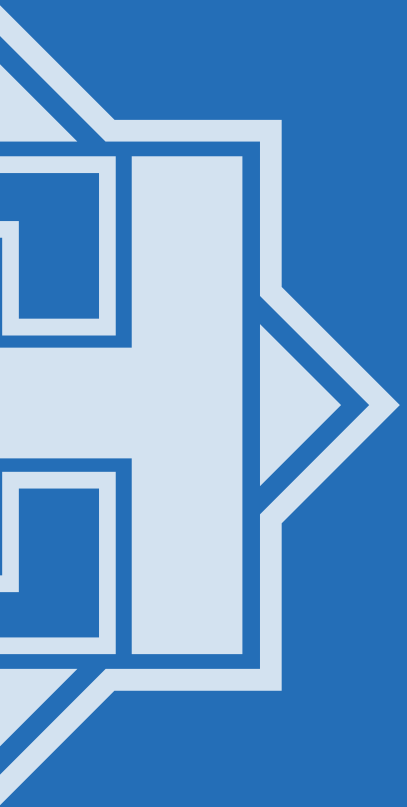
Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange values. Management monitors fluctuations in foreign currency exchange rates, and believes that the Group is not exposed to significant currency risk since the Group's functional 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.

20 COMMITMENTS

As at 31 December 2015, the Group has commitments which represent the value of the part not yet executed from the projects development contracts amounting to SR 49 million (31 December 2014: SR 81 million), and performance commitment through a bank guarantee for SR 74 million against receivable collected (31 December 2014: SR 74 million).





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