

ANNUAL REPORT 2016

Dar Al-Arkan Real Estate Development Company





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Dar Al-Arkan Real Estate Development Company



King

Salman bin Abdulaziz Al Saud

Custodian of The Two Holy Mosques



Crown Prince

Mohammed bin Naif bin Abdulaziz Al Saud

Deputy Premier, 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



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Dar Al-Arkan Real Estate Development Company



Yousef A. Al Shelash

Chairman



Majed A. Al Kasem

Vice 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



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



Dr. Abdulaziz I. Al Manie

Member of the Board



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General Information



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Dar Al-Arkan Real Estate Development Company



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 that started its business in 1994 under Commercial Registration No. 1010160195 and converted to a joint stock company in 2005 under Ministerial decree No. 1021 dated 10/06/1426 H, 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 diversifying 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



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Dar Al-Arkan Real Estate Development Company



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



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Dar Al-Arkan Real Estate Development Company

On behalf of my fellow board members, I am pleased to introduce the annual report of Dar Al-Arkan for the year 2016. In this report, we will review the results of the company businesses and the consolidated financial statements for the fiscal year ending December 31, 2016.

During 2016, the real estate industry has witnessed several developments. Among the most important of which was the implementation of the first phase of the white land fees in Riyadh, Jeddah, and Dammam. Further, the consequences of the global economic crisis being the toughest over the past few years, the fluctuation of oil prices, and other changes have directly or indirectly affected the real estate sector. These variables imposed an atmosphere of caution and uncertainty in the real estate market, which was reflected by the retreat of transactions completed during the year. As usual, Dar Al-Arkan has conducted further studies and analysis on the current situation to avoid and bypass the impact of such economic changes and challenges in the lowest possible impacts on the company and its resources. On the other hand, Dar Al-Arkan sought to adapt to such circumstances and difficulties, thus turning them to the best interest of the company in all aspects.

As Dar Al-Arkan is always committed to working hard to realize the best results, the company continued to implement an effective operational plan, upgrade the level of provided services, maintain fixed assets, and control expenditures through developing a strict action plan, while sustaining the highest quality levels.

Among the most prominent achievements of the company during the year 2016, we will highlight the following:

1. The company continued the plan of organizational restructuring on the administrative, technical, and financial levels, in line with the developments taken place in the real estate market. Therefore, Dar Al-Arkan could be able to resume its leading role, sustain its solid position as the largest real estate developer in the Kingdom, and realize its ambitious business plans.

2. Efforts Continued to upgrade the company's systems and improve strategic, technical and administrative plans so as to provide information and controls that help the company attain the desired objectives.

3. Applying methodologies based on outstanding performance continued to enable the company execute plans and strategies, meet operational needs, and increase the effectiveness of controlling and monitoring data, while showing the highest possible transparency and accountability.

4. Attracting global human calibers and long professional experts, in addition to developing existing human capabilities remained the main concern of the company throughout the last year, to ensure the continuous implementation of the strategic plans.

Dar Al-Arkan continued pursuing enhanced operational levels,



Yousef A. Al Shelash
Chairman of the Board of Directors

increased value of rental income, and accelerated works and procedures to obtain the final permits for Shams Riyadh project. Based on the positive indicators of discussions with AlRiyadh Development Authority (ADA), it was agreed to appoint an international consultant. Meanwhile, the first phase of executing the main roads and related infrastructure at Shams Riyadh commenced after getting the required approvals from the competent authorities. Moreover, the company initiated negotiations with some entities to develop real estate projects while resuming discussions with the relevant authorities to finalize the necessary requirements for approving the master plan of Juman project in the Eastern region.

launching Vision 2030, together with the National Transformation Program (NTP) 2020, was a turning point in the Kingdom during 2016. The Vision 2030 aims at establishing strong diversified economy apart from oil and activates the various other economic sectors. Once again, launching Vision 2030 came to reinforce optimism about granting the opportunity to the private sector to further conduct business and to expand investments. The Vision stipulates that the legislative authorities will amend the relevant laws to ease business environment and raise the efficiency of the economy so that the private sector can play its role in realizing future objectives of the vision and contribute to the economic development as well as addressing all the obstacles and challenges.

It is worth paying tribute to the consistent success of Dar Al-Arkan over the past years in meeting all credit and financial obligations. Again in 2016, the company confirmed such success upon the repayment of the full amount of SAR 1.125 billion (\$ 300 million)

of Islamic Sukuk, despite the challenges and changes that faced the real estate sector in particular and the economy in general. The global and local recognition of Dar Al-Arkan in 2016 was crowned by obtaining a series of four awards, namely:

- Largest Promising Residential Project “Juman” in Saudi Arabia 2016
- Corporate Governance Company of the Year MENA 2016 by “The European”
- Real Estate Development Company of the Year Saudi Arabia 2016 by “The European”
- Best Corporate Governance in Saudi Arabia 2016 by “World Finance”

I take this opportunity to express my gratitude to my fellow board members. I would like, also, to convey my sincere thanks to the executive management and all company employees for their determined efforts and productivity in implementing the future strategy of the company and for their contribution to achieving its goals and objectives.

Finally, I reconfirm the commitment of Dar Al-Arkan towards all shareholders and that the company shall spare no efforts to further preserve its leading position as the largest real estate developer in the Kingdom.

Yousef Abdullah Al Shelash

Chairman of the Board

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Dar Al-Arkan Real Estate Development Company



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 2016.

1 Business Activities

Dar Al-Arkan Real Estate Development Company is a Saudi Joint Stock Company which started its business in 1994 under Commercial Registration No. 1010160195 and converted to a joint stock Company in 2005 under Ministerial Decree No. 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 many limited liability companies in order to facilitate the achievement of its strategic objectives of diversifying the investment portfolio and its income sources.

1-1 The Company's Subsidiaries

1-1-1 Dar Al-Arkan Projects Company

Dar Al-Arkan Projects Company is a limited liability Company, a wholly owned subsidiary of Dar Al-Arkan Real Estate Development Company with fully paid up capital of SAR 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.

1-1-2 Dar Al-Arkan Properties Company

Dar Al-Arkan Properties Company is a limited liability Company, a wholly owned subsidiary of Dar Al-Arkan Real Estate Development

Company with fully paid up capital of SAR 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.

1-1-3 Dar Al-Arkan Investment Company

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

1-1-4 Dar Al-Arkan Sukuk Company

Dar Al-Arkan Sukuk Company is a limited liability Company, a wholly owned subsidiary of Dar Al-Arkan Real Estate Development Company with fully paid up capital of SAR 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.

1-1-5 Sukuk Al-Arkan Company

Sukuk Al-Arkan Company is a limited liability Company, a wholly owned subsidiary of Dar Al-Arkan Real Estate Development Company with fully paid up capital of SAR 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.

1-1-6 Thawabit Investment Company

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

1-1-7 Dar Sukuk International Company

Dar Sukuk International Company is a limited liability Company, a wholly owned subsidiary of Dar Al-Arkan Real Estate Development Company with fully paid up capital of SAR 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.

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

1-1-9 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 SAR 540 million and operates in the Kingdom of Saudi Arabia with headquarters based in Jeddah and undertakes real estate development (development of Qasr Khozam Project).

1-1-10 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 SAR 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.

2 Description of Company's Activities and Contribution to revenues

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

2-1 Real Estate Development

The revenue of this division is derived from the sale of land and developed residential and commercial properties to individuals, corporate, investors and developers. During the fiscal year 2016 this division accounted for SAR 1,725 million, representing (92.24%) of the Company's total revenues, as compared to SAR 2,075 million, or (93.85%) in 2015.

2-2 Property Management and Leasing

Property Management and Leasing is Dar Al-Arkan'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 2016, revenues generated in Property Management and Leasing amounted to SAR 146 million and represented (7.80 %) of Group revenues, compared to SAR136 million or (6.15%) of total revenues in 2015.

2-3 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 2016, these investment activities were not significant to the Company's net profits as their contribution accounted for only (5.13%) of Dar Al-Arkan's net profit.

During 2016, no other material elements impacted the Company's net income. However the Company earned SAR 1.1 million representing (0.3%) of net income for the year 2016 as profit from short term Islamic Deposits.

3 Saudi Real Estate Sector Overview

3-1 The Saudi Economy

The Saudi government's budget for the fiscal year 2017 points to take an expansionary stance taken by the government while also making the budget fall in line with the National Transformation

Program's (NTP) target of reaching a balanced budget by 2020. In a reaffirmation of its commitment to support the economy, the government has increased the spending by (6%), taking it to SAR 890 billion as against the 2016's budget of SAR 840 billion. With revenues pegged at SAR 692 billion, the deficit will be SAR198 billion; which will continue to be financed by using a combination of government deposit withdrawals as well as tapping the international and domestic bond markets. The government has budgeted for non-oil revenue to reach SAR 212 billion, showing a strong growth of (17.8%) and (6.5%) over 2016's estimated and actual figures, respectively.

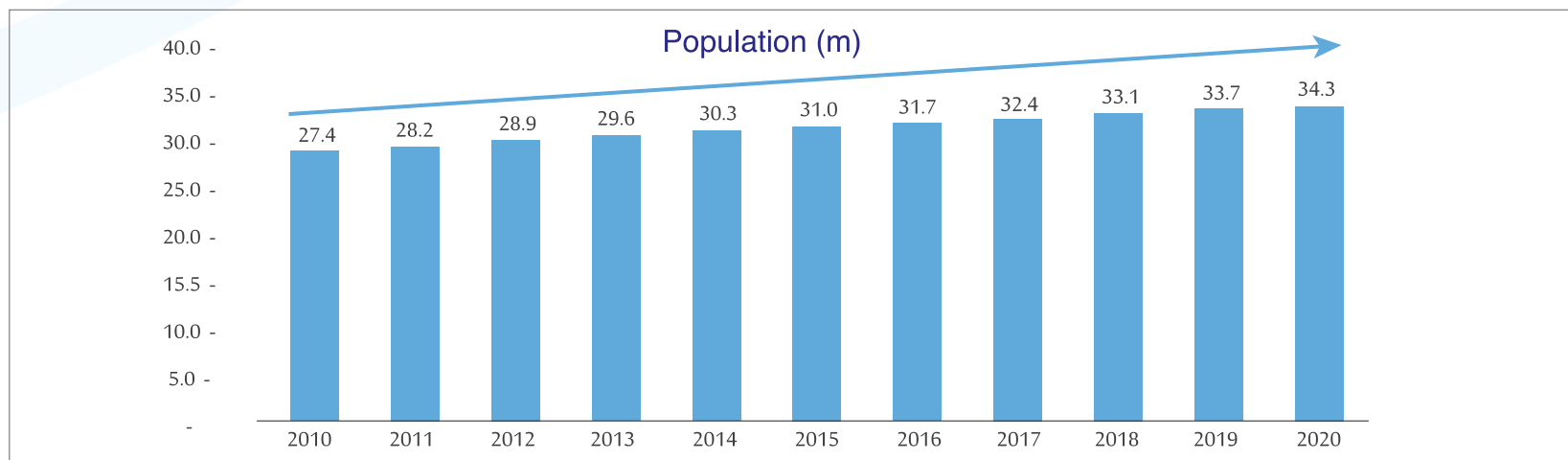
Education and healthcare remain the focus of government spending at (36%) of total expenditures (Up 1% YoY). The year's budget

also makes provisions for increased spending in infrastructure, technology, services, and utilities. Expansionary fiscal policies in the Kingdom are expected to further support a prosperous economy in the coming years, visible in all economic sectors.

3-2 Current Position of the Saudi Real Estate Market

Growing population dominated by young inhabitants, rapid urbanization, continuous influx of expats and declining household size are major factors driving demand for real estate in KSA.

Moreover, KSA has one of the lowest homeownership ratios in the world. Statistics indicate that homeownership ratio is (47%) in the Kingdom vis-a-vis the global average of (70%).



Source: Statistics Authority, KSA

The Ministry of Housing (MOH) is determined to provide affordable housing to its citizens, gradually raising the Saudi home ownership ratio to (75%). The Ministry has embarked on a mission to deliver 1.5 million homes over the next 7 to 8 years. The following are the key initiatives taken by MOH to address the housing shortage in the Kingdom:

- Some 120,000 housing products to be delivered to potential buyers within three years, as part of housing program to provide 280,000 properties across the Kingdom. The project, called Sakani, is built in cooperation with the private sector and supported by a home financing program in collaboration with commercial banks, the Real Estate Development Fund, and other mortgage insinuations. The products include 75,000 land plots. The total investment in the project reached about SAR 119.5 billion.

Housing Minister said it is expected to contribute SAR 562 billion to the economy of the kingdom. Direct and indirect economic impact for the Sakani project could reach SAR 433 billion, and could create 36.800 new jobs, he added.

- Within NTP 2020, the ministry plans to offer housing loans to eligible citizens who chose the mortgage loan product within the residential support options. The beneficiaries for this product are the more than 600 thousand families. The number of loans expected to put forward during the year of 2017 is 130 thousand new mortgage loans in a partnership with the local banks. The Ministry of Housing is aiming to raise the home ownership of Saudi families from (47%) to (52%) over the next three years.

The below table shows MoH goals as per the NTP 2020 plan along with the key performance indicator and benchmarks:



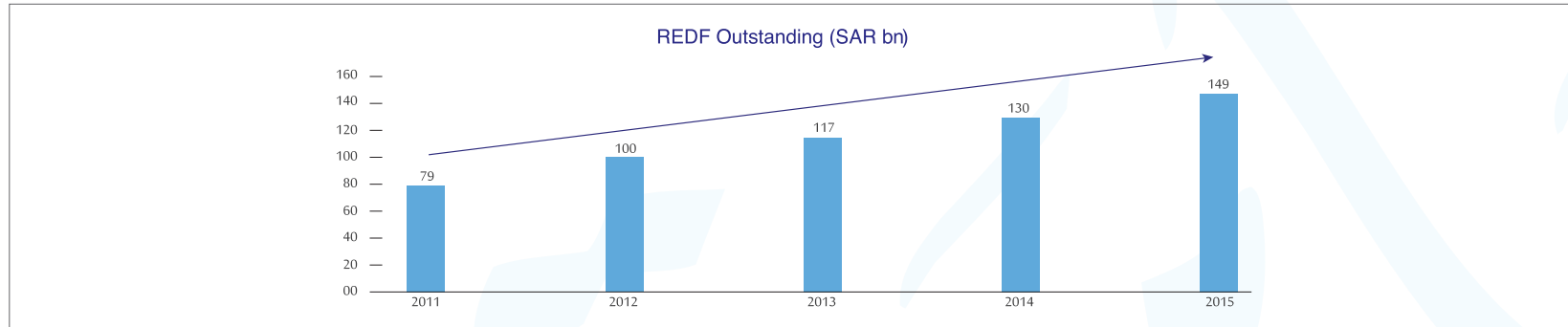
Strategic Objective	Key Performance Indicators	Baseline	2020 Target	Regional Benchmark	International Benchmark
Improve performance of the real estate sector and increase its contribution to the GDP	Percentage of real estate sector contribution to the GDP	5%	10%	13%	20%
	Annual growth rate in the real estate sector	4%	7%	6%	11%
	Average time required to approve and license new residential real estate development projects	730 Days	60 Days	44 Days	26 Days
Stimulating the real estate supply and raising productivity to provide residential products with appropriate price and quality	Housing unit cost multiples of gross individual annual income	10x	5x	6.7x	3x
	Percentage of residential units developed by approved real estate developers	10%	30%	N/A	
	Percentage of available housing units (new and unoccupied) to total number of subsidy-eligible citizens	10%	50%	N/A	
Enabling citizens to obtain suitable housing financing	Percentage of Saudi families owning homes	47%	52%	48%	64%
	Percentage of real estate financing to nonoil GDP	8%	15%	16%	75%
	Percentage of families who obtained housing subsidy out of the total enrolled families in ownership tracks	0%	40%	N/A	
	Percentage of families who obtained housing support to qualify them to obtain housing financing	0%	60%	N/A	
	Average waiting period to obtain housing financing	15 years	5 years	N/A	

Source: Saudi Arabia NTP 2020

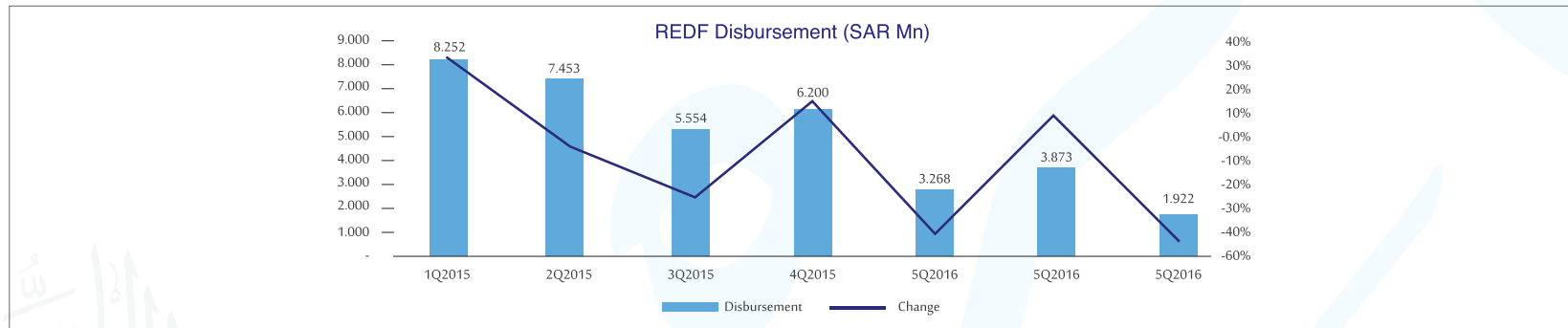
- In May-2016, the ministry signed cooperative agreements with 11 real estate builders to construct a total of 56,099 housing units in the provinces of Riyadh, Makkah, Hail, Tabuk and the Eastern Province.
- A Memorandum of Understanding (MoU) was signed with the government of Ningxia Region in China to build 100 thousand residential units and develop the Al-Asfar suburb in Al Al-Hasa.

Another preliminary agreement was signed with Chinese Deputy Minister of trade for cooperation on other housing projects. In March 2016, Saudi Arabia had initialed similar MoU's with South Korean builders to develop 100 thousand housing units in northern Riyadh over 10 years.

- To fund real estate development in the country, the Ministry plans to issue Islamic bonds in the year 2017/2018.



Source: Real Estate Development Fund (REDF) website



Source: Saudi Monetary Agency (SAMA) website

Several investment banks have approached the Ministry to express interest in issuing Islamic bonds and securitizing the portfolio of the Real Estate Development Fund (REDF). The REDF has more than SAR149 billion of outstanding loans at the end of 2015.

Besides the above, the Ministry of Housing for spurring the growth in real estate development; is considering to increase housing density limits, providing single window approval system for developments and permit off-plan sales.

3-3 Update on Mortgage Legislation and its Anticipated Impact

To increase home ownership among the nationals, the regulatory authority has revised the mortgaged law whereby the minimum down payment requirement is reduced to (15%) from the earlier (30%) of the home value.

The Saudi Arabian Monetary Agency's (SAMA) Monthly Statistical Bulletin for October 2016 report showed a healthy growth for corporate real estate loans by (11%) from Q2, 2016 to Q3, 2016 compared to (4%) from the same period in 2015. Retail real estate loans albeit showed a moderate increase of only (1%) from Q2 2016 to Q3 2016 as opposed to (2%) from the same period in 2015 owing to expectation from the buyers of reduction in prices due to sluggishness in the economy.

Notwithstanding the moderate growth in retail loans, the Council

of Ministers has recently approved procedures for "facilitated mortgage" which aims to increase homeownership and investment in the real estate sector. This new mortgage policy is a concerted effort between the Ministry of Housing, Ministry of Finance and the Saudi Arabian Monetary Agency (SAMA). To facilitate greater mortgage take off, the new policy envisages issuing a financial guarantee by the Ministry of Finance to cover (15%) of the total value of the real estate unit in case mortgagees default on payments. These financial guarantees will be specifically applied to the beneficiaries of the Ministry of Housing "Eskan" projects. The facilitated mortgage policy aims to expand the real estate sector in the following ways:

First, the new mortgage policy will help raise the current 47% Saudi homeownership rate to (52%) rate by 2020 thereby facilitating demand and bringing the homeownership rates in line with the National Transformation Program (NTP).

Second, the facilitated mortgage policy will encourage banks to make additional investments in the housing sector due to partly sharing of the risks by Ministry of Finance.

Third, due to increasing mortgage take off, more development activity will be undertaken by the Developers for meeting the growing demand.

Additionally, the proposed White Land Tax applied to serviced urban land is expected to address the supply side concerns

by increasing the availability of land for development which otherwise were lying vacant for speculative purposes. With prices projected to moderate due to the fallout of the proposed white land tax and enabling new mortgage terms are expected to spur residential demand in short to medium term.

3-4 White Land Tax

The Council of Ministers in June 2016 approved a number of regulations for the introduction of the White Land Tax. Important features of these regulations include:

1. A white land is defined as empty land designated for residential and commercial use within the urban growth boundaries of all cities across the Kingdom.
2. The tax will be imposed on a phased basis on lands which meet the following criteria:

First Stage: applies to undeveloped land over ten thousand square meters within approved master planned developments will be taxed.

Second Stage: single landowner of large plots of developed land (exceeding ten thousand square meters) in approved master planned developments will be taxed. The definition of 'developed plots' is again not included in this announcement but we are assuming this relates to sites that have been serviced with horizontal infrastructure (roads, power, drainage, etc.) but where no vertical development has yet taken place.

Third stage: single land owners of smaller plots of developed

land (exceeding five thousand square meters) in the approved master planned developments will be subject to the tax.

Fourth Stage: single land owners of plots exceeding ten thousand square meters in one city will be subject to the tax.

3. The Ministry of Housing will be responsible for collecting the tax, in addition to any imposed fines on landowners who disregard the rules and regulations. The rate of tax has previously been announced to be (2.5%) annually of the value of the land.

The new law is expected to result in a fundamental change in Saudi Arabia's real estate market and help stimulate further development to address the shortage of middle-income housing.

While it is still early to say precisely how the market will react, it is expected that the new law would result in the following:

- Some land owners will begin development to avoid the additional tax burden of holding undeveloped land.
- To avoid taxes, some landowners will sell the land holdings; with increased land availability the land prices are expected to soften which previously has seen soaring prices due to artificial shortage created by the land owners.
- Lower land values will make development more financially viable and therefore stimulate development activity.
- Tax revenues will allow the government to undertake additional housing projects targeting the affordable housing sector.

4 Company Business Model

Dar Al-Arkan 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 added value.

For that reason, the company focuses on purchasing undeveloped lands in the major urban centers where purchasing power is higher to achieve added value at the completion of 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 for land selection and investigating legal ownership of land Purchasing of land Investment in land Land investment/ development proposal with business plan & feasibility study 	A legally owned asset with development potential through a feasibility investment proposal
2	Project planning	<ul style="list-style-type: none"> Organization 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 including excavation and backfilling Land zoning/ phasing 	Semi-developed land plots
4	Infrastructure development	<ul style="list-style-type: none"> Materials and technology Roads, sidewalk pavement, and landscaping Utilities & service networks 	Fully developed lots
5	Superstructure development	<ul style="list-style-type: none"> Designing Construction plan Materials and technology Commissioning and correction of potential defects 	Semi-finished Residential/ Commercial unit
6	Finishing and decoration	<ul style="list-style-type: none"> Shaping and covering of residential/ commercial utilities Mechanical and electrical works Joinery and aluminum works Plaster, tiles and painting work Internal and external decoration works 	Completed residential/commercial unit ready for sale or lease
7	After-sales or lease services	<ul style="list-style-type: none"> One-year free maintenance Ten-year construction warranty Providing customers with plans of the residential/ commercial 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

Dar Al-Arkan 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) Land development and sale;
- (2) Development and sale of residential and commercial units; and
- (3) 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, 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, which is leading to complete project development, 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.

To conclude, Dar Al-Arkan's competitive advantage is centered on large master-planned communities where the value is created through phases of horizontal and vertical development as follows:

4-1 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 core infrastructure;
- Seeking strategic alliances with third party developers that will collaborate to maximize value; and
- Selling the land to third party developers, investors, and consumers.

4-2 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 Dar Al-Arkan may be, a) "for sale" projects that help inject cash to be used to mitigate risks, or b) operating assets (commercial and for-lease residential compounds) that once completed are transferred to the Property Management and Leasing department to run and get revenues from the lease.
- Starting the off-plan sales and development to finance projects with draw-downs from payments by buyers.

5 The Strategy

5-1 Diversification Strategy

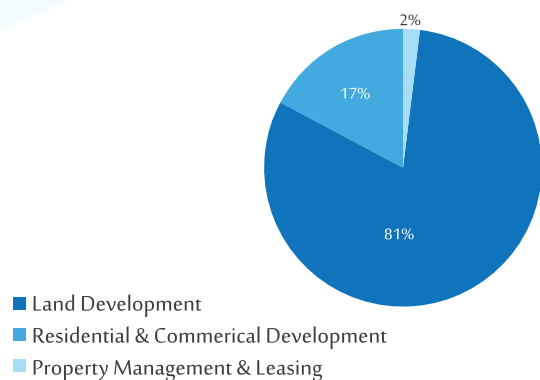
Despite the recent volatility in the real estate sector in the long term Dar Al-Arkan remains true to its strategic focus of developing master-planned communities, homes, shopping and business centers for the fast growing Saudi Arabian middle-income consumer segment.

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.

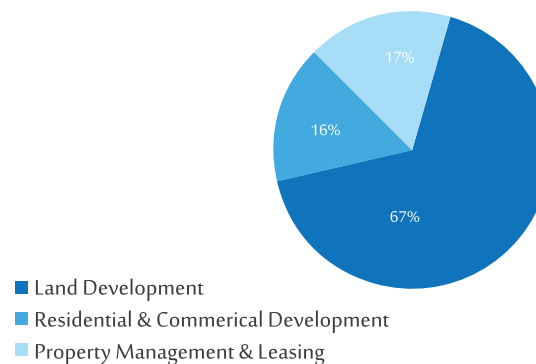
Development of large scale master-planned communities creates growth opportunities for our three business streams, namely the sale of land and residential projects, property management and leasing and investment in real estate related businesses.

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.

2007 - Asset Mix



2016 - Asset Mix



5-2 Diverse Land Bank in the Kingdom

Dar Al-Arkan 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. Dar Al-Arkan 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.

Going forward Dar Al-Arkan will remain net land seller and drives to convert increasing amounts of developed land to be off plan and for rent properties allowing the company to benefit from significantly higher revenue and EBITDA generation.

5-3 Residential and Commercial Development is the Cornerstone of our Growth

5-3-1 Master Planned Communities

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.

Strategic plan set forth by Saudi government allocates substantial support to real estate sector by allowing more guarantees and funding to home buyers and seeks to have quicker approval cycles

and better co-operation with developers in housing projects and this all is well in line with Dar Al-Arkan's ambitions to be a leading developer in kingdom.

Driven by above and recently established mortgage law and off-plan selling rules enables Dar Al-Arkan to re-direct strategic efforts to deliver housing and related mixed use commercial properties to mid income home buyers and business users from Shams Ar Riyadh and later from Juman, our largest master planned communities.

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

5-3-2 Affordable Housing

Affordable housing is one of the core focus areas for kingdom 2030 strategy driven by large underserved low income population. Dar Al-Arkan being one of the largest land developers in the kingdom possesses unique selection of land parcels in fast growing cities that are selectively suitable for affordable housing and is in good position to support MOH in its efforts to solve the affordable housing problem. Affordable housing will be instrumental part of the Company's product offering in the future driven by offers submitted to MOH during 2016 for substantial amount of housing units to be developed on Dar Al-Arkan owned lands. Similarly Dar Al-Arkan will continue to participate in MOH tenders across kingdom for affordable housing developments.

5-3-3 Development Services

Dar Al-Arkan'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 (MOH, MODA, GAGA, PIF) and private entities during previous years. 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 Dar Al-Arkan as the leading developer in the country to manage these developments on behalf of land owners.

5-3-4 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 2016 was (51%) and asset book value amounted to SAR 3,4 billion. Key customers continue to demand new units in Dar Al-Arkan 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, as well as seeking earnestly to support the asset portfolio with leasable commercial and residential properties that meet the Company's investment criteria.

5-4 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.

5-5 Conservative Funding Strategy

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

Dar Al-Arkan'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. Dar Al-Arkan is moderately leveraged and plans to improve current leverage ratios.

Currently Dar Al-Arkan enjoys a B1 rating from Moody's and A1/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.

6 Residential and Commercial Development

6-1 Dar Al-Arkan, one of the largest private sector developers in the Saudi real estate and construction sector

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



6-2 Juman Project

The project is located in the Eastern Province overlooking Tarout bay. It is based on the reclamation of 8.2 million square meters of semi-submerged land, based on an agreement dated 22/04/2014 with the owners. Under the terms of this agreement, Dar Al-Arkan is the development manager of the project and acquired an (18.3%) stake in the land.

The project will be a master-planned community with diverse land use, including 2.7 million square meters for residential,



410,011 square meters for hospitality, 1.1 million square meters for mixed-use (retail and residential), 129,192 square meters for a regional mall and 694,323.78 square meters for offices, 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 bathymetric surveys were completed and concluded that (73%) of the land area is only 1,1m below the water level. This conclusion enables Dar Al-Arkan to reduce costs and accelerate the development of the project's infrastructure. On the other hand, discussions continue

with various authorities including Ministry of Municipal and Rural Affairs (MoMRA) and Dammam Amana to better introduce the project and obtain their feedback and guidance. During 2016, the pre-concept master plan was further detailed and enhanced/ refined to a stage that allowed expediting authority's approval to proceed with further development of the final concept design.



6-3 Shams ArRiyadh Project

Located in the north-west of Riyadh in the Al-Dariya district, the Company is developing Shams ArRiyadh, Dar Al-Arkan's second master-planned community



project. Shams ArRiyadh is one of the largest mixed use development projects (including major residential, commercial, hospitality, health care and educational components) 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 ArRiyadh Development Authority ADA in December 2015, however, some pending issues related to development basis were still pending and under negotiation end of 2015 and beginning of 2016.

During the year of 2016, and following suggestions by ADA, a well-known international consultancy firm, AS+P, was engaged and is currently enhancing and refining the master plan in parallel with thorough discussions with (ADA) to conclude pending issues. With the current progress, the master plan is foreseen to be agreed and approved within the second quarter of 2017 enabling us to proceed further with development of the various packages in line with the business plan/strategy.

A concept master plan commenced 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. Towards the end of year 2016, the feasibility and strategy for the gated compound was being re-evaluated in line with the market dynamics developing during the year. During 2015, discussions with the Ministry of Housing created residential village concept within Sham 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. Discussions with Ministry of Housing continued in 2016 to reach a development strategy that suits the Ministries requirements and Dar Al-Arkan's business strategy.

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. 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. Development of the Urban Center continued in 2016 in line with the ongoing refinement of the overall master plan.

Shams ArRiyadh Project



Conversations are ongoing with anchor tenants and investors to insure the long term viability of the scheme.

The project's infrastructure was approximately (49%) 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.

The redesign contract for the project's main roads and related infrastructure was awarded to Saudi Consult in the second half of 2015. At the end of 2016 Shams Ar Riyadh backbone infrastructure PKG-1 was awarded to the Construction Contractor and construction work is in progress at the site and expected to be finished in the first quarter of 2017.

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 2016 considerable progress has been made.

The table below shows the project in numbers:

Shams Al-Riyadh in Numbers*	
Detail	Number
Total project's remaining area	3.2 million (m ²)
Residential land area to be sold/ developed	991,617.42 (m ²)
Commercial land to be sold/ developed	412,693.75 (m ²)
Mixed Use land area to be sold/ developed	314,392.45 (m ²)
Commercial development BUA	3.2 million (m ²)
Percentage of completed Infrastructure **	49%

*Based on current development plan

** Excluding land cost



6-4 Shams Al-Arous Project

Shams Al-Arous is the Company's third master-planned community project and is strategically located approximately 12 kilometers east of downtown Jeddah. The community comprises an area of about 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 52 meter 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 resulted in significant value appreciation for the project land. Moreover, 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 developed the infrastructure in this residential land plots. In 2014 land sales progressed on the project with 338,408 square meters sold to sub-developers and brokers. During 2016, planning and design of additional products/services to attract individuals to buy lands is being conducted.

The table below shows the project in numbers:

Shams Al-Arous in Numbers*	
Detail	Number
Total project's net remaining area	938,000 (m ²)
Residential area to be sold/leased	773,000(m ²)
Commercial area to be sold/leased	190,000(m ²)
Percentage of completed infrastructure	100%

*Based on current development plan.

Shams Al-Arous Project





6-5 Al-Tilal Project

The Al-Tilal project is located in southwest Medina, on Prince Sultan Road, one of the main roads in Medina, within the Alharam zone boundaries, nine kilometers from the Prophet's Holy Mosque and eight 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. Furthermore, 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 2016, planning and design of the additional products for Al-Tilal to attract individuals to buy the units, is ongoing.

Al-Tilal in Numbers*	
Detail	Number
Residential land area to be sold/ developed	439,000 (m ²)
Commercial space to be developed and leased (m ²)	4,400 (m ²)
Total number of developed villas	499
Percentage of project completion	100%

*Based on current development plan.

Al-Tilal Project





6-6 Qasr Khozam Development Project

Khozam Real Estate Development Company «Khozam» was established following an offering that targeted private real estate development companies. Supported by its technical expertise and proven track record, Dar Al-Arkan was selected as development partner from among 37 competing businesses in April 2008. Khozam Real-

Estate Development Company was established as a limited liability company and is headquartered in Jeddah. Khozam capital amounts to SAR 540million, of which Jeddah Development and Urban Regeneration Company owns (49%) contributed by the provision of 252,040.45 square meter lands, valued at SAR 264.7 million, while Dar Al-Arkan owns the remaining (51%), with a cash contribution amounting to SAR 275.5 million.



The main purpose of the Company is to develop the Qasr Khozam area and surrounding neighborhoods 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. Preparing 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. Completing the preparation of all documentation for properties to be seized;
3. Completing the evaluation of properties to be seized and obtained the approval of relevant authorities for evaluation statements;
4. Completing a social and economic survey by a specialist company targeting the owners of the properties located in the project area to determine the social and economic characteristics of the local population and set a comprehensive study to deal with their relocation mechanism; and Carrying out technical studies to determine infrastructure needs of the entire project,

including roads, electricity, water supply, sanitation, storm water drainage, irrigation, and communication networks.

On the first phase: Eviction, demolition, and removal works were completed; measurement and parceling (Thar'a) decisions were also completed pending the approval of relevant authorities to complete procedures in preparation for an offering to investors. On the second phase: Completed works include a cadastral survey (a full land and property survey) and valuation, according to the approval of relevant authorities to give evacuation notification to property owners and start demolition works.

6-7 Real Estate Market and its Impact on Dar Al-Arkan in 2016

A climate of uncertainty and negative market sentiment became apparent in the second half of 2015 and continued in 2016 due to fluctuations in oil prices and ongoing regional and global political and economic instability. In late 2015 and 2016, Saudi Arabia announced a record budget deficit of SR 367 billion (\$97.9 billion) and 198 billion (\$52.8 billion) respectively and has cut investment spending as it wrestled with low oil price and supply issues.

In return, there have been recent declines in real estate indicators (average price per square meter and the number of transactions) which have continued since the beginning of the second quarter of 2015 and continued in 2016.

Such declines reflect the ongoing exposure of the real estate market to some factors and variables including the implementation of the fees on vacant lands within the urban boundaries of cities and provinces. Some of these factors will continue to have an impact on real estate market performance in the Kingdom during 2017. Due to the above, Dar Al-Arkan adopted a conservative development strategy in 2015 and 2016 with regards to its pipeline of projects.

7 Property Management and Leasing

7-1 Overview

The year 2016 marked another period of progress, albeit slower than hoped for growing recurring income. At the end of 2016, revenue from leased assets amounted SR 146 million, or (8%) of the Company's total revenue.

Management of 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 target an increased share of the Kingdom's growing residential community market. Stronger and more rigid property management systems have been implemented to ensure retention of tenants and stimulate demand.

The corporate and Government segments are experiencing financial pressures and low demand for growth in these sectors has been

met with aggressive competition for this business. Dar Al-Arkan has maintained their position as a leader in accommodation provision within this industry and has managed to attract growth from existing corporate tenants and to retain the current tenants. Dar Al-Arkan is actively pursuing alternate rental pools and individual tenancies as markets shift with economic and financial pressures. It is Dar Al-Arkan's objective to have a fluid and flexible strategy to ensure growth utilizing a two-pronged approach as we are experiencing moderate demand, in line with current market conditions, to lease modern and quality properties in convenient locations. Dar Al-Arkan has an aggressive marketing and leasing plan that will be rolled out in 2017 to ensure continued growth within the market

During the year, the department has focused on improved operations, streamlining of systems and recruitment of industry experts. New reporting procedures have been implemented for asset performance management and new processes have been introduced for tenant retention, proactive facilities management, 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.

The focus in 2017 will be to enhance current performance, generate efficiencies and aggressive marketing, while improving our customer service proposition.

7-2 Key Events in Property Management and Leasing

7-2-1 Major Leasing Agreements Concluded in 2016

7-2-1-1 Al Masif Compound

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.



7-2-1-2 Al Qasr Community

A number of leases were signed at Al Qasr Community during 2016 with large corporate tenants. It was pleasing to note that many of these leases were signed with existing tenants, who are expanding their presence in Al Qasr Community. These agreements included an additional of 25 residential unit for an existing tenant and an additional of 150 units being leased to an industry leading tenants in the health care sector in the Kingdom.

7-2-1-3 Al Qasr Mall

The year 2016 saw an expansion of leasing activity, with lease agreements being finalized with a range of well-known brands including Jammoly World, Heleume Perfumes, Matalan Clothes and Desndat for Watches. A total of 67,376 square meters, or 275 retail units, are leased in 2016. The year 2017 will see an aggressive marketing and leasing campaign to generate a substantial increase in foot count and spend.

7-2-1-4 Al Tilal

The Al Tilal community has experienced slow demand, and Dar Al-Arkan is currently reviewing the leasing strategy and planning substantial improvements required in this community to stimulate demand. A total of 87 villas have been leased to date.

7-3 Leased Area Under Management

Dar Al-Arkan currently manages a diverse pool of assets as listed in the table containing the portfolio of assets below; leased assets under company's management remained 727,000 square meters at the end of 2016.

Development	Leasable Area (m ²)	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	726,442			

7-4 Description of the Leased Asset Portfolio



7-4-1 Al Qasr Community

Al Qasr is Dar Al-Arkan's first planned community in the Kingdom. Situated in Al-Swaidi district of Riyadh its modern, spacious layout is proving to be popular with middle-income families, Government and corporate institutions. Its location adjacent to King 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 retail units and 65 office units) the Al Qasr

Community is a leading example of master-planned communities in the Kingdom. Families enjoy the spacious urban design, parks, schools, and shops. Further significant investment is being made in schools and Government administrative offices, which is increasing the attraction of the community as a place to live and work.

During 2016, Al Qasr experienced significant demand from the corporate sectors, and a large number of leasing inquiries are being processed with some offers being sent to high-value corporate clients. Current tenants of Al Qasr include the Ministry of Foreign Affairs, Ritz Carlton (staff accommodation), Boudl Furnished Apartments, Al Hammadi Hospital and AL Habib hospital (doctors and seniors accommodation)



7-4-2 Al Qasr Mall

The state-of-the-art Al Qasr Mall provides an important retail and entertainment destination for the residents of Central, Southern and Western Riyadh. With a total area of 250,000 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 Carrefourre Koton, Al Homaidi, Etam, H&M, Mothercare, Swatch, Boots, Vision Express, Foot Locker, Evans, Next, Mango, Suit Blanco, Mac, Blue Age, Nayomi, SportsOne, Max, Red Tag, Lindex, SportsSac, Cole Haan, Coach, Shoe Express, Sun Sand & Sports, SACO, Jamoli World, Nichi in Mark, and Home Center.

Throughout 2016, 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.



7-4-3 Azizia Towers

The Azizia Towers development in Mecca is located in the heart of the Azizia quarter on Prince Sultan Street, only 5.5km from the Holy Mosque and 3km from the Mashaer Mina. The development comprises 7 Towers, including 3 Towers at the front overlooking Prince Sultan Street each with 12 residential floors and 4 Towers at the rear, each with 11 residential floors.

Azizia Towers comprises a total built up area of 76,486 square meters, which includes 276 apartments with a net residential area

of 40,472 square meters, and six showrooms with a total area of 2,135 square meters. The Towers are leased to King Abdullah Medical City who has renewed their lease agreement for a further 3 (three) years.

7-4-4 Al Masif

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

Located in the Al Masif neighborhood of North Riyadh, the gated



community comprises 26 duplex villas surrounded by green space, with a children's play area and a swimming pool. In June 2014, Al Masif was leased to NESMA.

7-4-5 Al Tilal

Al Tilal is located in the South West of Madinah, on Prince Sultan Bin Abdulaziz Road, within the Holy Prophet Mosque Haram area. Al Tilal is a comprehensive urban development, on 2.2 million 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.

During 2016 Leasing activity was directed to the corporate and individual segments, both of which are growing in importance in the Madinah area. In 2017, Dar Al-Arkan will focus on further improvements to the community and ongoing maintenance and management of the development; Improvements are also being also planned to the public areas and street- scape.





The Financial Results



ANNUAL REPORT 2016

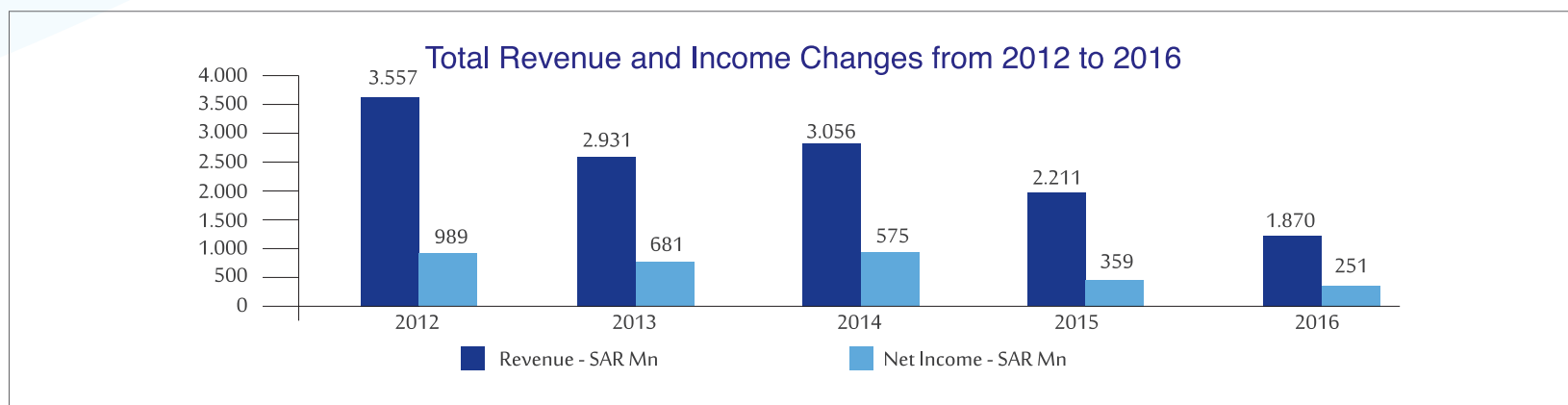
Dar Al-Arkan Real Estate Development Company

8 Financial results

8-1 Income statement for the fiscal years 2012 to 2016

The following table illustrates the main income statement items for the last five years. This should be read in conjunction with the audited

Item (in SAR '000s)	2016	2015	2014	2013	2012
Operations' revenue	1,870,229	2,211,349	3,056,060	2,931,168	3,557,072
Cost of revenue	(1,078,286)	(1,228,117)	(1,756,805)	(1,778,097)	(2,163,366)
Gross profit	791,943	983,232	1,299,255	1,153,071	1,393,706
Principal activities expenses	(192,476)	(243,824)	(279,341)	(182,692)	(209,279)
Net income from principal activities	599,467	739,408	1,019,914	970,379	1,184,427
Financing expense	(353,536)	(384,801)	(493,294)	(313,959)	(264,086)
Net other Income	12,846	13,875	62,895	42,570	93,626
Net income before Zakat provisions	258,777	368,482	589,515	698,990	1,013,967
Zakat provisions	(7,943)	(9,325)	(14,820)	(17,528)	(25,430)
Net income	250,834	359,157	574,695	681,462	988,537
Earnings per share	0.23	0.33	0.53	0.63	0.92



8-2 The balance sheet for the fiscal Years 2012 to 2016

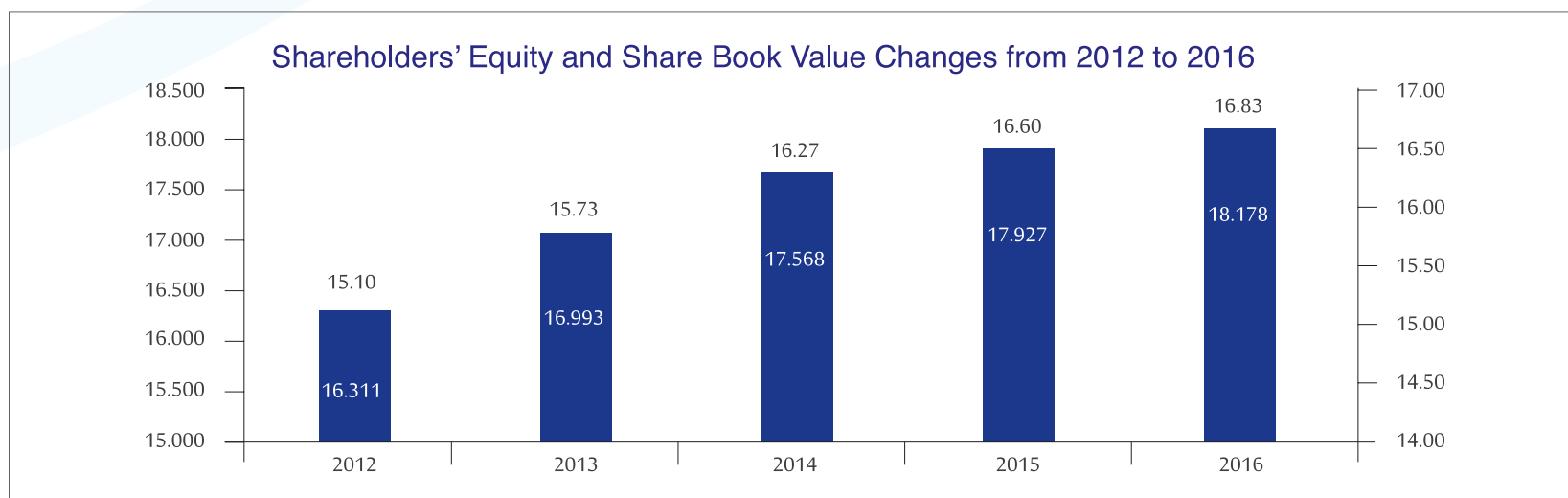
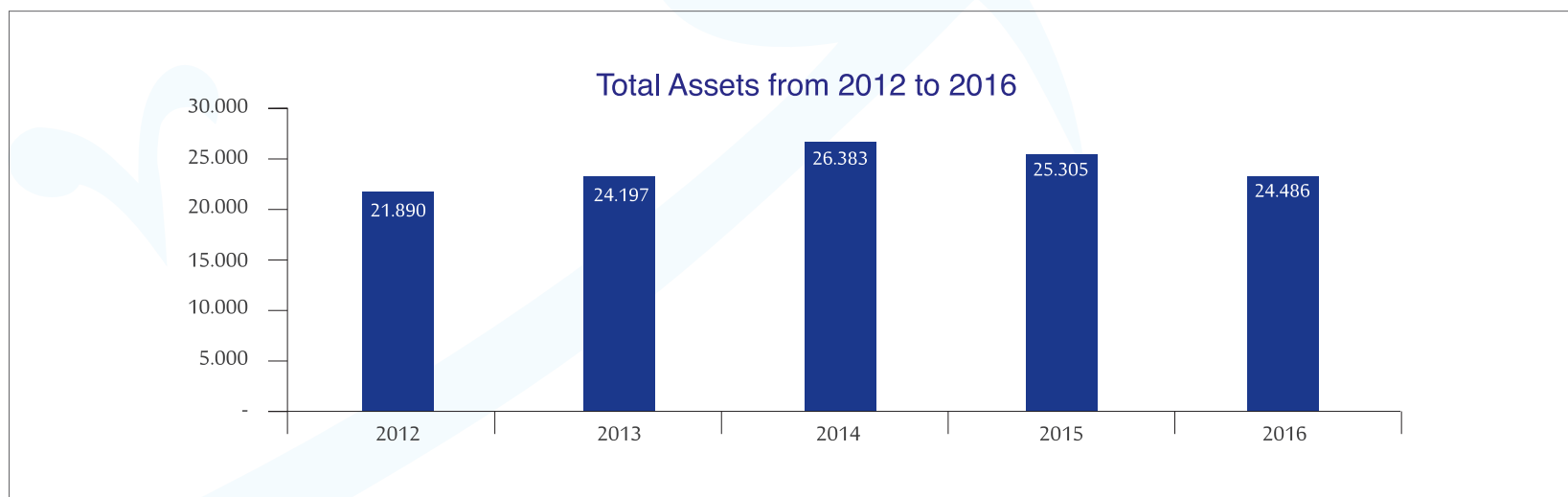
The following table illustrates the main balance sheet items for the last five years. This should be read in conjunction with the audited consolidated financial statements and accompanying notes.

Item (in SAR '000s)	2016	2015	2014	2013	2012
Current Asset	3,482,391	4,361,742	5,668,959	5,099,412	3,552,478
Non-current Asset	20,937,252	20,875,085	20,642,308	19,023,550	18,350,137
Fixed Asset	66,131	68,416	71,279	74,370	77,674
Total Asset	24,485,774	25,305,243	26,382,546	24,197,332	21,980,289
Current Liabilities	1,392,210	2,596,980	3,337,922	2,027,894	2,362,996
Non-Current Liabilities	4,916,057	4,781,590	5,477,108	5,176,617	3,305,934
Total Liabilities	6,308,267	7,378,570	8,815,030	7,204,511	5,668,930
Capital	10,800,000	10,800,000	10,800,000	10,800,000	10,800,000
Statutory reserve	1,003,383	978,300	942,384	884,914	816,768
Retained earnings	6,374,124	6,148,373	5,825,132	5,307,907	4,694,591
Total shareholders' Equity*	18,177,507	17,926,673	17,567,516	16,992,821	16,311,359
Total Liabilities and Shareholders' Equity	24,485,774	25,305,243	26,382,546	24,197,332	21,980,289
Book value per share*	16.83	16.60	16.27	15.73	15.10

*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.

Note: 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.



8-3 Results of Operations

The following table compares the results of operations for 2016 and 2015:

Item (in SAR '000s)	2016	2015	Change	Change %
Revenues	1,870,229	2,211,349	-341,120	-15.43%
Cost of revenues	1,078,286	1,228,117	-149,831	-12.20%
Gross Profit	791,943	983,232	-191,289	-19.46%
Principal activities expenses	192,476	243,824	-51,348	-21.06%
Net income from principle activities	599,467	739,408	-139,941	-18.93%
Financing charges	353,536	384,801	-31,265	-8.12%
Net other Income	12,846	13,875	-1,029	-7.42%
Net Income before Zakat provisions	258,777	368,482	-109,705	-29.77%
Zakat provisions	7,943	9,325	-1,382	-14.82%
Net Income	250,834	359,157	-108,323	-30.16%
Earnings Per Share	0.23	0.33	-0.10	-30.30%

8-3-1 Revenues

Total revenues were SAR 1,870 million in 2016, compared to SAR 2,211 million in 2015, representing a decrease of (15.43%). The decline is mainly due to the decrease in land sales.

Rental revenues increased by (7%) to reach SAR 146 million during 2016 compared to SAR 136 million in 2015 due to the growing occupancy ratios of the Company's residential and commercial properties assigned for lease in Riyadh and Madinah regions.

The company did not earn any revenue from the sale of residential properties in 2016 and 2015. Revenues from the sale of land were SAR 1,725 million in 2016 compared to SAR 2,075 million in 2015, representing a decrease of (17%) 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 2015. The total area of land sold during 2016 was 3.11 million square meters, a small decrease on 2015 when 3.14 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.

8-3-2 Cost of Revenue

Cost of revenue accounted for SAR 1,078 million in 2016, representing (57.6%) of total revenues compared to SAR 1,228 million in 2015 or (55.53%) of total revenues. This small increase in the cost of revenue is mainly due to the lower gross profit generated by land sales revenue in 2016 compared to 2015.

8-3-3 Selling and General Administrative Expenses

Selling and general administrative expenses were SAR 156 million in 2016 compared to SAR 204 million in 2015, representing a decrease of (24%). The decrease is primarily due to lower professional and consulting services.

8-3-4 Financing Charges

Net financing charges were SAR 354 million in 2016 compared to SAR 385 million in 2015, representing a decrease of (8%) amounting to SAR 31 million. This decrease is primarily attributable to lower average debt in 2016 as compared to 2015.

8-3-5 Net Other Income

Net other income was SAR 13 million in 2016 as compared to SAR

14 million in 2015. The marginal decrease is due to lower amount of deposits compared to the higher amount of deposit in 2015.

8-3-6 Net Income

Net income in 2016 was SAR 251 million compared to SAR 359 million in 2015. Earnings per share were SAR 0.23 in 2016 compared to SAR 0.33 in 2015. In conclusion from the above, the decrease in net income was driven by lower land sales and lower gross margins in spite of the drop in selling and general administrative expenses and finance costs as in 2016.

8-4 Liquidity and Capital Resources

As of 31 December 2016, we had cash and cash equivalents of SAR 582 million compared with SAR 1,001 million as at 31 December 2015.

8-4-1 Cash Flow

The following table sets out the Company's cash flows for the financial periods 2016 and 2015:

(millions SAR)	2016	2015
Funds from Operating Activities	951	491
Funds (used in)/ from Investing Activities	(259)	(449)
Funds from/ (used in) Financing Activities	(1,111)	(176)

Net cash flow from operations stood at SAR 951 million in 2016 compared to SAR 491million in 2015. The positive variance is mostly related to the decrease in developed land and other working capital movements in 2016.

The Company's lower net investments in land and project development have primarily led to an overall outflow of cash in investing activities of SAR 259 million in 2016 as compared to SAR 449 million in 2015.

The cash outflow from financing activities of SAR 1,110 million was primarily due to repayment of Sukuk VI in November 2016 amounting to SAR 1,125 million.

8-4-2 Projects and Investment Expenditures

Our priorities for expenditure on projects include continuing to build integrated residential developments, investing in developing land and purchasing and developing income generating properties. During 2016, we spent SAR 1,012 million primarily on development of existing lands, with some land acquisitions in first half of 2016.

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

9 Dividend Policy

Based on the results of the financial performance of the previous years and as approved by the company's General Assembly meetings, dividends are paid to shareholders based on

the company's income, financial status, 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 and 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.

Given the developments on the governmental activates that the real estate sector experienced during 2015 and 2016, including the implementation of the white land tax and the repercussions of the economic status in addition to the obstacles encountered by the company in obtaining credits and permits for its mega development projects that require years of work and effort to be completed. Such events and implications have a great impact not

to distribute dividends for 2015, due to our concern for achieving the objectives of the company in the long term, taking into account the interest of all shareholders.

10 The Company's Financing Program

10-1 Financing strategy

Dar Al-Arkan's Financial Strategy primarily focused on matching its project investment cycle of three to five years with the maturity profile of its funding. The company continues to diversify its sources of funding to avoid any dependency on any specific source such as local banks. 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 SAR 12.8 billion, SAR 9.6 billion of which has already been repaid as of end of 2016, whereas the remaining SAR 3.2 billion is due for maturity within the next 2-3 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 2016 was SAR 2.09 billion.

The ratio of International Islamic Sukuks to total financing amount as of the end of 2016 was approximately (60%), whereas

the Murabahas and Ijaras with local and regional banks were (40%). 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. In addition, starting the off-plan selling which is another source of funding directly from customers. 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 8-9 years and given the excellent track record, it will continue maintaining this relationship by accessing the domestic and international capital markets.

10-2 Indebtedness

All financing taken by the Company locally or internationally is Shariah-compliant and follows the structures of Ijarah and Murabaha transactions. Below is a description of the repayments and outstanding debts at the end of 2016.

10-2-1 Indebtedness Details & Decrease in Financing at the End of 2016

During 2016, the Company raised new Murabaha financing of SAR 400 million. The Company successfully repaid the sixth Sukuk of SAR 1.1 billion, and also repaid some of the local bilateral Murabaha facilities amounting to SAR 384 million.

Indebtedness Details as of 31 December 2016

Bilateral Islamic Facilities	Settlement	Original Amount	Starting Date	Opening Balance	Addition During 2016	Paid During 2016	Closing Balance	Maturity
Murabaha: Local Bank ANB	Quarterly settlement	400	12 Nov 2013	133	-	133	-	31 Dec 2016
Murabaha: Local Bank ANB	Half yearly settlement	130	02 Feb 2015	130	-	65	65	31 Oct 2017
Murabaha: Local Bank MUSCUT 1	Quarterly settlement	100	11 Jul 2011	20	-	20	-	31 Dec 2016
Murabaha: Local Bank MUSCUT 2	Quarterly settlement	175	26-Mar 2015	163	-	16	147	30 Sep 2022
Murabaha: Local Bank MUSCUT 3	Bullet	400	14-Dec 2016	-	400	-	400	14 May 2023
Murabaha: Local Bank alinma	Quarterly settlement from Q2 2016	300	11Jun 2015	300	-	13	287	31 May 2027
Ijarah: International Banks	Quarterly settlement	1,427	11Jul 2015	1,312	-	118	1,194	31 Jul 2020
Murabaha: GCC Bank	Quarterly settlement	113	07 May 2013	19	-	19	-	12 Jan 2016
Gross Total		3045		2,077	400	384	2,093	

The ratio of gross debt to capitalization stood at (22%) at the end of 2016. The closing cash balance decreased to SAR 582 million at the end of 2016 compared to SAR 1 billion at the end of 2015. The decrease was mainly due to the repayment of Sukuk 6 in November 2016 for SAR 1.12 billion.

Summary of the Murabaha and Sukuk transactions

Maturity	In million Saudi Riyals		
	Outstanding balance	Murabaha	Sukuk
2017	332	332	-
2018	2,035	347	1,688
2019	1,859	359	1,500
2020	349	349	-
2021 onwards	706	706	-
Total	5,281	2,093	3,188

10-3 Overview of the Sukuk Issuances and Repayments in 2016.

10-3-1 The Repayment of the Sixth Sukuk for US\$ 300 million

On 25 November 2016 Dar Al-Arkan successfully repaid SAR 1.12 billion due against the sixth Islamic sukuks issued in 2013.

11 Related Party Transactions

During 2016, the company entered into transactions with related parties. The company followed the same procedures as with other non-related parties. These transactions are not limited to certain duration and are presented in the Annual General Meeting (AGM) to obtain the required approvals for the current year and the coming one. Following is a brief of these transactions:

11-1 Saudi Home Loans "SHL"

In the ordinary course of business, the company enters into transactions with Saudi Home Loans "SHL". SHL is a related party and the company owns a (15%) equity stake 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, Dr. Abdulrehman Hamad Al Harkan, and Mr. Abdullatif Abdullah Al Shelash. These transactions were meant for financing 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 2016, there were no transactions and have any outstanding balance to be paid or settled by this related party.

11-2 Khozam Real Estate Development Company (KDC)

Khozam Real Estate Development Company (KDC) is a related party as the company has a 51% equity holding 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 Shalash and Dr. Abdulrehman Hamad Al Harkan. The management of KDC requested that it invests its excess cash balance (opening balance as at beginning of 2016 amounted to SAR 194.25 million) with Dar Al-Arkan at a nominal interest repayable on demand to facilitate its working capital needs. During 2016 the company repaid SAR 1.13 million of this amount in advance; together with interest of SAR 0.24 million for its operational requirements. The closing balance as at 31 December 2016 was SAR 193.36 million. This transaction was approved during the AGM on May 01 2016 and the company can repay the amount and close the balance anytime.

11-3 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 (until May 12th 2016), Mr. Majed Abdulrehman Al Kasim, and Mr. Abdullatif Abdullah Al Shalash. 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 2016 there were no fees and expenses charged except the opening balance of SAR 0.1 million which is the remainder of the amount paid in earlier to be paid/settled during 2017.

11-4 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 Shalash. Alkhair Capital was engaged to provide general financial advice, representing and filing the documents on behalf of the company with the Capital Market Authority (CMA), Tadawul and other statutory bodies. Alkhair Capital provides, also, Shariah compliance reviews and management support for the international Sukuk issuances, the partial pre-closure of the Sukuk and leasing/ subleasing of properties. During 2016 there were no fees and expenses charged and have no outstanding balance to be paid or settled.

12 Risks Attributable to the Company's Activities

- The massive slump in oil prices.
- Political-economic complexities at the regional level.
- Availability of cost effective funds required to undertake large capital investments, thus realizing the growth objectives of the company.
- Reliance on overall growth in the real estate and economic sectors, where any long term slowdown may negatively impact the company's growth.
- Reliance on contractors and consultants to fulfill their contractual obligations. Any shortfall in their performance could affect the projects' completion rates and profitability.
- The cost of the company's projects would be adversely affected by any unexpected rise in materials or labour prices.
- White land tax is expected to be imposed to landowners in certain areas within the kingdom during deferent phases. Annual white land tax will be calculated as 2.5% of the value of land each year. It is expected that charges, related to the first phase, will be during 2017.

▪ Fluctuations of the real estate sector

The company's profitability depends on the rents of the buildings and the sale of land. Therefore, the unfavorable significant fluctuations in the real estate sector may adversely and materially affect the company's business, results of operations, financial position, and future prospects.

▪ Long-term leases affected by market variables over time

- There is no guarantee that the increases determined by the company at the time of concluding long-term leases would be sufficient to compensate the company for the increase in operating costs or inflation rates. Nor these increases may remain in line with the growth rates of the rental values when they are due. Consequently, this situation may lead to affect the company's business, results of operations, financial position, and future prospects both negatively and materially.

▪ Higher cost of some operating and maintenance expenses

The company's periodical expenses include the operating and maintenance costs of the residential communities and related commercial centers for the purpose of maintaining them. Such residential communities and commercial centers need an ongoing maintenance to keep the operational condition at the best level, and to retain their appeal for tenants and visitors. In the event of

higher maintenance expenses than expected, due to several factors such as increased labor costs, cost of contracts with third parties, cost of repair and maintenance, or company's failure to recover such expenses from tenants, there will be a significant negative impact on the company's business, results of operations, financial situation, and future prospects.

- **Price inflation in some parts of the Kingdom and higher interest rates may limit the attractiveness of real estate market**

The decision of the Saudi Arabian Monetary Agency "SAMA" to increase the maximum limit of mortgage amount to 85% of the value of the house along with high-interest rates on financing and mortgages are the factors that will limit the attractiveness of the real estate market. On the other hand, the reluctant citizens to purchase, and the state of anticipation that dominates the real estate market - for a given period - following the recent decisions of imposing taxes on the white lands within the urban boundary, may have a negative and primary impact on the company's business, results of operations, financial position, and future prospects.

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

- **Credit Risk**

Credit risk is the risk of financial loss to Dar Al-Arkan if counterparty

to a financial instrument fails to meet the contractual obligations, and it arises principally from the company's bank balances, due from related parties, 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, Dar Al-Arkan will be exposed to the credit risk with respect to the amount due from those customers. However, in such cases the company 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 company's exposure to losses is limited with appropriate allowances for uncollectible amounts, whenever it is 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. Dar Al-Arkan 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 company.

Dar Al-Arkan adopts a policy to hedge and manage its variable commission rate risk exposures, if any, with shariah' compliant commission rate swap whenever applicable. The company's international borrowing commission rates are primarily based on LIBOR and its local borrowings are based on SAIBOR. Hence, the commission exposure of the company is variable according to the changes in the LIBOR and SAIBOR.

– Liquidity Risk

It is the risk that makes Dar Al-Arkan encounter difficulty in realizing assets or otherwise raising funds required 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

It is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange values. The management monitors fluctuations in foreign currency exchange rates, and believes that Dar Al-Arkan is not exposed to significant currency risk since the company's functional currency is the Saudi Riyal, in which the company 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 may arise between the book values and fair-value estimates. The management believes that the fair values of the financial assets and liabilities are not materially different from their carrying values.

13 Management and Administration

13-1 Board of Directors

During 2016, 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 2016 and the members' attendance is as shown below:

#	Name	Capacity/ membership	Attendance	Other JSC Membership
1	Yousuf Abdullah Al Shelash	Chairman/non-executive	4	Saudi Home loans Co. (SHL) Alkhair Investment Bank Alkhair Capital
2	Abdullatif Abdullah Al Shelash	Executive	3	Saudi Home loans Co. (SHL) Alkhair Investment Bank Alkhair Capital T'azur Company
3	Abdulrehman 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 (until 12 May 2016) Alkhair Capital
5	Khalid Abdullah Al Shelash	Non-executive	4	
6	Tariq Bin Mohamed Al Jarallah	Independent	4	
7	Abdulaziz Abdullah Al Shelash	Independent	4	
8	Majed Romi Al Romi	Independent	3	
9	Ahmed Mohammed Al Dahash	Independent	2	
10	Majed Abdul Rahman Al Kasem	Independent	4	Alkhair Investment Bank
*11	Abdulaziz Ibrahim Al Manie	Independent	2	(Starting from 23 June 2016)
	Saleh Bin Mrikhan Al Mutairi	Independent	2	(Until 23 June 2016)

*23 June 2016

13-2 Board Meetings Register

The Board meets at the request of the Chairman, and at other times contingent on specific requirements. The Board held four meetings in 2016 according to the attendance record shown below:

#	Name	22-Feb	22-May	1-Aug	22-Dec
1	Yousuf Abdullah Al Shelash	✓	✓	✓	✓
2	Abdullatif Abdullah Al Shelash	✓	x	✓	✓
3	Abdulrehman Hamad Al Harkan	✓	✓	✓	✓
4	Hathloul Saleh Al Hathloul	✓	✓	✓	✓
5	Khalid Abdullah Al Shelash	✓	✓	✓	✓
6	Tariq Mohamed Al Jarallah	✓	✓	✓	✓
7	Abdulaziz Abdullah Al Shelash	✓	✓	✓	✓
8	Majid Romi Al Romi	✓	x	✓	✓
9	Ahmed Mohammed Al Dahash	✓	✓	x	x
10	Majed Abdul Rahman Al Kasem	✓	✓	✓	✓
*11	Abdul Aziz Ibrahim Al Mani			✓	✓
	Saleh Mrikhan AlMutairi	✓	✓		

*23 June 2016

13-3 Board Committees

The Board comprises three committees: executive, audit and a remuneration and nominations committees. The formation of these committees is as follows:

13-3-1 The executive committee, consisting of:

#	Name	Capacity/membership	Attendance	Notes
1	Yousuf Abdullah Al Shelash	Chairman	4	
2	Abdullatif Abdullah Al Shelash	Member	4	
3	Abdulrehman Hamad Al Harkan	Member	4	
4	Tariq Bin Mohamed Al Jarallah	Member	4	
5	Majed Abdul Rahman Al Kasem	Member	-	Appointed on 23 June 2016

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 organizational, 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 four meetings during 2016.

13-3-2 The Audit Committee

During the first new Board of Directors meeting in June 23rd 2016, they appointed the audit committee temporarily for the purpose of conducting the ongoing tasks until the next General Assembly's meeting to vote on the selection of its members and its functions and controls work and rewards for its members as per Article 101 from the new company's law. The audit committee consisting of:

#	Name	Capacity/ Membership	Attendance	Notes
1	Tariq Mohamed Al Jarallah	Chairman	6	
2	Majed Abdulrehman Al Kasem	Member	6	
3	Hathloul Saleh Al Hathloul	Member	6	
4	Majed Romi Al Romi	Member	6	

- Monitoring the company's business, and access the company's records and documents and request any clarification or statement from either the Board of Directors or executive management. Also they may request a General Assembly's for the company if they observes any lack from the Board.
- 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 six meetings during 2016. The committee discussed and reviewed the quarterly and annual financial statements for the year 2016 and passed their recommendations to the Board.

13-3-3 The Nominations and Remuneration Committee, Consisting of:

#	Name	Capacity/ membership	Attendance	Notes
1	Majed Abdulrehman Al Kasem	Chairman	3	
2	Yousuf Abdullah Al Shelash	Member	3	
3	Khalid Abdullah Al Shelash	Member	3	Resigned on June 23rd 2016
4	Abdulaziz Abdullah Al Shelash	Member	3	Resigned on June 23rd 2016
5	Ahmed Mohammed Al Dahash	Member	-	Appointed on June 23rd 2016
6	Abdulaziz Ibrahim Al Manie	Member	-	Appointed on June 23rd 2016

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 three meetings during 2016.

14 Remuneration and Compensation Paid to the Board Members and Senior Executives

Description (in Saudi Riyal)	Executive Board Members	Non-executive/Independent Board Members	Senior Executives (Including General Manager and CFO)
Salaries and compensation	-	-	6,164,400
Allowances	-	-	2,578,540
Periodic and annual bonuses	-	-	-
Incentive plans	-	-	513,700
Any other compensations or incentives paid monthly or annually	-	-	-

15 Description of any Interest in Contractual Securities and Underwriting Rights of Board Directors and Senior Executives and their Relatives in the Shares or Debt Instruments of the Company or Any of its Affiliates and Any Change in that Interest or Rights During the Last Fiscal Year

Name	Capacity	No. of Shares at the Beginning of the Year	Ownership the Beginning of the Year (%)	Change in the No. of Shares During the Year	Total Shares at the End of the Year	Ownership at the 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	8,028,850	0.7434%	0	8,028,850	0.7434%	Director
Khalid Abdullah Al Shelash	Board Member	69,623,293	6.4466%	(41,900,000)	27,723,293	2.5670%	Director
		957	0.0001%	0	957	0.0001%	Director owned by direct relative
Majed Abdul Rahman Al Kasem	Board Member	2,844,550	0.2634%	1,000,000	3,844,550	0.3560%	Director
		639,154	0.0592%	0	639,154	0.0592%	Director owned by direct relative
Tariq Mohamed Al Jarallah	Board Member	3,000	0.0003%	0	3,000	0.0003%	Director
Abdulaziz Abdullah Al Shelash	Board Member	2,849,550	0.2638%	1,000,000	3,849,550	0.3564%	Director
Majid Romi Al Romi	Board Member	2,844,550	0.2634%	1,000,000	3,844,550	0.3560%	Director
Abdullatif Abdullah Al Shelash	Board Member	8,137,550	0.7535%	1,000,000	9,137,550	0.8461%	Director
Ahmed Mohammed Al Dahash	Board Member	2,005,104	0.1857%	0	2,005,104	0.1857%	Director
Abdulrehman Hamad Al Harkan	Board Member	10,000	0.0009%	0	10,000	0.0009%	Director
Abdulaziz Ibrahim Almanie	Board Member	0	0.0000%	1,300	1,300	0.0001%	Director
Saleh Mrikhan Al Mutairi (in person)	Board Member	0	0.0000%	0	0	0.0000%	Director
Saleh Bin Mrikhan AlMutairi (as a representative of GOSI)	Board Member	1,000	0.0001%	(1,000)	0	0.0000%	Owned by General Organization for Social Insurance
Ahmed bin Saleh Salman Al Dehilan	Internal Audit Manager	80,000	0.0074%	0	80,000	0.0074%	Director
TOTAL		97,068,558	8.9878%	(37,899,700)	59,168,858	5.4786%	

16 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 Debate	Number of Shares	Ownership Percentage	Change in Ownership	Nature of Ownership
point company Limited	7th Jan 2016	70,280,303	6.51%	-	Indirect: Ownership of a private company
	16th feb 2016	43,723,044	4.05%	-2.46%	Indirect: Ownership of a private company

17 Corporate Governance

According to corporate governance regulation issued by the Capital Market Authority, the Board of Directors has approved Dar Al-Arkan's corporate governance regulations taking into consideration the rights of shareholders, customers, employees, all stakeholders, as well as enhancing relations with them, and preserving their interests. Under the corporate governance regulations, the company is committed to the principles of transparency and disclosure, the activation of the Board and the executive management roles, while identifying their responsibilities and training on an on-going basis. The company also seeks to ensure the mechanisms that enhance the effectiveness of internal control and risk management, in addition to complying with corporate governance regulations issued by the Capital Market Authority, and adopting best practices in governance to boost the corporate culture, and implement sound management rules in the company. Such actions ultimately reflect company's desire to work hard to meet the highest levels of governance, setting an example

as a national company. The Board of Directors strives to achieve the objectives through the Board's active committees; the Executive, the Audit, and the Nominations and Remuneration Committees.

It is worth mentioning that the company has applied all the articles of the corporate governance regulations (mandatory or referential) issued by the Capital Market Authority except clause (b) of Article No. (6) in relation to the adoption of cumulative vote as a way of voting in respect of member selections for the Board at General Assembly meetings. It should be noted that the rules of cumulative voting will be implemented for the election of the next Board of Directors members. Dar Al-Arkan's corporate governance regulations have therefore been prepared in the light of the globally acknowledged principles of sound corporate governance, and should be viewed as the basis for corporate governance within the Company. They should, also, be considered within the context of the broader legislative framework in force in Saudi Arabia, and in particular, the stipulations of the following:

1. The requirements of the Capital Markets Authority (CMA) of Saudi Arabia No. M/30 dated 02/06/1424 H and its regulations;

2. The Companies' Law of Saudi Arabia No. M/6 dated 22/03/1385 H and associated ministerial directives of the Ministry of Commerce & Investment; and
3. Dar Al-Arkan's Articles of Association.

However, two clauses in the Corporate Governance Regulations are not applicable to the company. These are: clause (d) of the same Article No. (6) which states that investors who are judicial persons and act on behalf of others, e.g. investment funds- shall disclose their voting policies and the actual voting processes in their annual reports, as well as the ways of dealing with any material conflict of interest that may affect the fundamental rights of their investments. In addition, clause (i) of Article No. (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 nominating other members of the Board of Directors.

18 Internal Audit

The Internal Audit is one of the major departments in Dar Al-Arkan. In recognition of its critical role, and to guarantee its independence and objectivity, the Internal Audit reports directly to the Board of Directors. The department operates by the international standards for the professional practice of internal auditing issued by the Institute of Internal Auditors in Florida, USA. The internal audit staff is certified by the Institute of Internal Auditors.

The internal audit department provides independent, objective and advisory services for the purpose of adding value and improving the company's operations, where it helps the company achieve its goals by adopting a systematic and disciplined methodology that aims at reviewing and improving the effectiveness of risk management process, internal controls, and corporate governance. The Internal Audit provides the Audit Committee and senior management with relevant, objective and timely information which do evaluate not only the company's current situation but also provide the officials and Board of Directors with the necessary data they need to discharge their responsibilities and take the appropriate financial and executive decisions. The objectives that Internal Audit department is pursuing include helping company employees carry out their jobs efficiently, providing them with analysis, assessment, recommendations, advice, and all information relevant to audit activity while boosting effective control and leverage the cost-effective execution of all the company's operations.

During 2016, the Internal Audit department worked closely with other departments by providing them with a lot of proposals, recommendations, and advice related to the procedure enhancement of the company's operations and policies. This way, Internal Audit department managed to improve the effectiveness and efficiency of the internal control system and to enhance the performance and monitoring of project costs as well as providing support and assistance to other departments to help them attain their objectives.

19 Internal Control

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

19-1 Features of the Internal Control System

The Control Environment in the Company

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

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.

19-2 Results of the Effectiveness of the Company's Internal Controls in the Annual Audit

During 2016, the Audit Committee of the Board of Directors reviewed various reports prepared by the Internal Audit Department and submitted a report to the Board of Directors regarding its recommendations. The Board of Directors reviewed the effectiveness of the Company's internal controls at financial and operational levels and was in compliance with policies and regulations. The review did not find any material weaknesses in the internal control system.

20 Investor Relations

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

During 2016, 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.

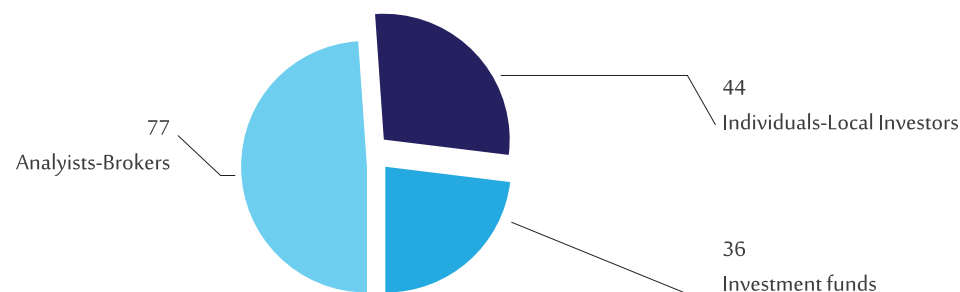
Specialist staff in the investor relations department support investor and analyst inquiries through a variety of channels. These include providing a toll free telephone number, e-mail and fax contact details, as well as developing the IR section of the Company website with full access to Company information.

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 thirteenth ordinary general assembly meeting held on 1 May, 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's Meetings with its Investors During 2016



21 Human Resources

21-1 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 2016 is 345 employees.

21-2 Senior Management Biographies:

Dr. Abdulrehman bin Hamad Al Harkan - Chief Executive Officer

Dr. Abdulrehman 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 King 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, Europe, Russia and the USA. Prior to joining Dar Al-Arkan, he was CFO at Al Arrab General Contracting of Saudi Arabia, Skanska Oy and, ABB Drives Group. Mr. Mika has a Master's Degree in National Economics from the University of Jyväskylä 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.

Wesam Al Hazmi - Chief Asset Management Officer

Mr. Wisam 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. Wisam 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 ISO9001& 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 Group, Board Member of one of Mohammad Al-Abdul Al-Aziz Al-Rajhi Companies (Fayhaa Al-Qassim), and a member of various committees.

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-Arkan, Mr. Abdulaziz occupied senior positions in banks sector as he worked in Al Rajhi Bank, SAMBA and Riyadh Bank.

22 Quality, Environment, Health & Safety (QEHS)

The QEHS Department is centered on adopting International Standards to improve the quality of products & services and enhance the stakeholders' satisfaction. Besides, Dar Al-Arkan is maintaining its compliance with all applicable requirements of the environment, health, and safety, and developing cost efficient operations which will improve the Business Sustainability.

The department's activities focus on the establishment, initiation, and improvement of a Quality, Environment, Health, and Safety within an Integrated Management System (QEHS IMS), which consists of policies, charters, and procedures for effective implementation and compliance, as well as monitoring the compliance with all applicable requirements of international management systems standards ISO 9001:2015, ISO14001:2015 and OHSAS18001:2007.

22-1 Quality Assurance Department Achievements in 2016

- The realignment of QEHS IMS to align with the recent changes in the organizational structure
- 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 external quality surveillance audits by SGS.
- Planned and conducted two quality audit program cycles for all documented procedures.
- Conducted two MRM (Management Review Meetings) for quality systems.
- Developed additional set of Bi-language Procedures to support the diverse workforce within the company.
- Upgraded the procedures related to three standards (ISO 9001, 14001 and OSHAS 18001) requirements.
- Establish QEHS Dashboard to monitor and report on the Department Performance.
- Effective implementation of the Corrective Actions & Preventive Actions (CAPA) System
- Trained and engaged employees from other departments to participate independently as internal Quality auditors.

23 Environmental and Social Responsibility

Dar Al-Arkan strives to fulfil its social responsibilities through the leading role it plays as the largest provider of integrated real estate solutions in the Kingdom. The philosophy of social responsibility adopted by Dar Al-Arkan is based on serving the community where it operates service, not only through the provision of distinct projects and services but also through the way in which such services and projects are provided. For example, the company believes that the positive approach in dealing with issues related to health, safety, and environment are among the things that can make a positive difference that meets the fundamental principles which the company believes. Further, Dar Al-Arkan is always focused on continuous development to realize the balance between economic, social, and environmental considerations, bearing in mind the customers and investors' expectations as well as risk management, and other practical and business objectives.

The projects and operations of Dar Al-Arkan are distinguished for their ability to serve society not only by supporting the development and future visions of the government initiatives, creating jobs, and providing opportunities for partnership with local suppliers but also through the type of the services provided by these projects. Because we want Saudi society to take advantage of our presence as a national responsible company, we listen, respond and cooperate with our customers through official channels established

to interact with the public, including the company's customer service center. The center provides a practical system to observe customer feedback and measure their satisfaction degree of the services and products offered, and anticipate the expectations and priorities of interest to customers, in addition to addressing complaints that are verified and mitigated as soon as possible. Furthermore, the company conducts surveys to the existing and prospective customers when participating in important real estate events, and distributes awareness and promotional publications about the company's products.

The services provided by Dar Al-Arkan projects have enabled the company to make a lot for the Saudi society in a short time. Among the most important of these projects, there is Al Qasr commercial and residential community, through which the company assumed

the rehabilitation of Al Suwaidi Public Park which extended on an area of approximately 155 thousand square meters that costed SAR 30 million. The park Included family section and another for young men, and both were provided with a general recreational area, a public services area, vehicle Parking areas, and playgrounds. Dar Al-Arkan has also donated SAR 3 million to the construction of King Salman oasis of Science branch inside Al Qasr Community for the purpose of supporting the educational activity and promoting scientific culture. Besides, Dar Al-Arkan has allocated spaces inside Al Qasr Community for the service and government facility buildings. The design of Al Qasr Community has taken into account to include larger green areas and pedestrian passages so that the final percentage of public and social services facilities was 53% of the total project area of Al Qasr Community, a higher percentage than the average general requirements for such projects.



Al Suwaidi Park

Al Qasr Mall represents another form of commitment to social responsibility by Dar Al-Arkan, through hosting and sponsoring many community events and activities that reflect of Dar Al-Arkan interest in enriching awareness as well as cultural and social aspects of the mall-goers. During 2016, Al Qasr Mall witnessed more than 14 events; among the most notable were the awareness program of “Fast to get healthy,” the event of “Raising the level of awareness and education in the field of mental health,” the event of “The awareness campaign of the Saudi Society for Family and Community Medicine,” and the event of the “Society Charitable Association of diabetes,” and others.

In the Western Region, the scope of Dar Al-Arkan projects has expanded to include the development of 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. Through Shams Al Arous project in Jeddah, also, Dar Al-Arkan has executed the new extension Palestine road to the East of the Al Haramain Road in Jeddah city with 4 kilometers long and 52 meters wide, and at the cost of SAR 30 million.

Dar Alarkan is not only committed to its social responsibilities in terms of conducting projects and interacting with industry issues,



One of the events held at Al Qasr Mall



Palastine Road

but it also cares about running the business in a way that considers the company's responsibility towards the employees. Dar Al-Arkan pays special care to develop employees capabilities and offers them job security that ensures a decent lifestyle for staff and their families. Further, the internal meetings during public holidays and the holy month of Ramadan, help to create an atmosphere of cordiality, intimacy, and boost the spirit of one family among the employees, thus maintaining a healthy and good working environment for increased productivity and improved quality performance.

24 Events and Sponsorships During 2016

24-1 Ramadan Annual Employees Iftar Gathering for 2016

Dar Al-Arkan held the annual Iftar party for the employees at Makarim Hall of the Marriott Hotel in Riyadh. Mr. Yousef Bin Abdullah Al Shalash, Chairman of the Board, attended the party along with Company's top management level, senior executives, and a large number of employees amid a friendly atmosphere.



The organization of such events reflects the Company's policy to boost communication among employees, promote moral aspects, and provide a positive work environment which will motivate employees to exert extra efforts and innovation to attain growth and development desired by the company.

24-2 Restatex - Dar Al-Arkan, the Diamond Sponsor of Riyadh Real Estate and Urban Development Exhibition 2016

Dar Al-Arkan participated in Riyadh Real Estate and Urban

Development Exhibition (Restatex) 2016 held from 17 to 19 Rajab 1437H corresponding to 24 to 26 April 2016 at Riyadh International Convention and Exhibition Center, as the diamond sponsor of the exhibition.

The booth of Dar Al-Arkan occupied the largest space of 680 square meters and shed lights on the most important development projects. The booth highlighted the company's unique experience in providing effective real estate solutions and integrated communities in the Kingdom.



25 Board Undertakings

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

- 1) Proper accounting books have been maintained
- 2) The system of internal control has been effectively implemented
- 3) There are no significant doubts concerning the Company's ability to continue as a going concern

26 Penalties and Fines

Dar Al-Arkan was not exposed to any penalties, fines during the year of 2016.

27 Preparation Status and Readiness of IFRS

Following Saudi Organization for Certified Public 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 from the year ended 31 December, 2008. Since then, in parallel with our statutory SOCPA audited financials, we have been issuing fully compliant consolidated audited financials under IFRS to the investment community for their improved understanding, with comparatives and associated financial analysis.

However during the year 2016, considering the IFRS transitional

importance, Dar Al-Arkan's management have taken special care and created a special task team under the supervision of Audit Committee to review and update the accounting policies and disclosures if any to meet full compliance of IFRS.

Further to ensure a full compliance check, Dar Al-Arkan's management have appointed M/s PricewaterhouseCoopers (pwc) to review and comments on our updated draft financial statements , accounting policies and disclosures with IFRS requirements.

Subsequent to various discussions and meeting with core team and management, pwc have submitted their report on 21st December 2016 with their findings, comments and recommendations on our existing IFRS financial statements and the updated draft provided for their review. This report have no major suggestions or changes recommended in accounting policies already adopted by Dar Al-Arkan, however there were few modifications are suggested with the disclosures notes to enhance the transparency and presentation. We have adopted such suggestions in the presentations for the annual consolidated IFRS financial statements for the year ended 31 December 2016.

As per the direction of the Capital Market Authority (CMA), the company has disclosed each stage of its preparation in Tadawul and 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.

28 Statement of Regulatory Payments Due During 2016

Item	Amount (In SAR)	Description	Type of payment
Social Insurance	2,224,761	Paid in full as per the rules of GOSI.	Regular requirement
Government Charges	1,183,198	Charges for building licenses, subscription for Chamber of Commerce, fees for work permits, renewal of Iqama and others. Paid in full	Regular requirement
Zakat	26,206,373	Due as per the legitimate rules of Zakat duty and instructions of Dept. of Zakat and Income Tax in Saudi Arabia. (Paid in full)	Regular requirement
Total	29,614,332		

29 Awards in 2016

29 .1 “Best Corporate Governance in Saudi Arabia, 2016” by “World Finance”



Dar Al-Arkan Real Estate Development Company won the award of the “Best Corporate Governance in Saudi Arabia 2016” granted by “World Finance,” the globally recognized magazine specialized in finance and business. The award recognized Dar Al-Arkan’s ongoing commitment to applying the highest governance standards of dealing with the clients and investors around the world, as well as adhering to the transparency and disclosure principles and the quality of internal controls.

29.2 The “Real Estate Company of the Year - Saudi Arabia, 2016” by “The European”



Dar Al-Arkan Real Estate Development Company has won the award for the 'Real Estate Company of the Year in Saudi Arabia 2016' for the second year in a row by “the European,” the globally renowned financial sector magazine. Dar Al-Arkan was chosen for this award based upon its leading role in real estate development, property management, real estate investment, and for its ability to innovate and develop iconic projects that satisfy customer's requirements in a changing economic environment. The award, also, recognized Dar Al-Arkan for the high-quality services of delivering the best products and services to the satisfaction of clients and tenants.

29.3 The “Best Corporate Governance Company of the Year –MENA, 2016” by “The European”



Dar Al-Arkan Real Estate Development Company has won the award of the “Best Corporate Governance in the Middle East and North Africa 2016” for the fourth consecutive year by (the European), the globally recognized magazine specialized in finance and business world.

The awarding of Dar Al-Arkan was based upon the high quality of its internal audit system and corporate organization, the transparency and full disclosure that exceeded world official listing requirements, in addition to applying the best practices in dealing with all customers and investors around the globe.

29.4 The Largest Promising Residential Project in the Kingdom “Juman Project” by “Restatex” - 2016



“Juman” project selected for the award based on the design concept and master plan which nominated “Juman” to be one of the pioneer commercial and residential real estate projects in the Kingdom and Gulf area. Dar Al-Arkan developed “Juman” project to be an integrated and vibrant community that is distinguished with a fascinating sea view and surrounding landscape. The project aims to develop residential communities which serve different social segments. The design of the master plan accommodates residential and commercial areas, medical and educational facilities, shopping centers, hotels, entertainment and resorts as well as a water park and public amenities. The project will create economic opportunities and provide excellent investment returns due to the unique and strategic location, the superb design, and the diversified real estate products and facilities.



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 2016

Dar Al-Arkan Real Estate Development Company



Consolidated Financial Statements



ANNUAL REPORT 2016

Dar Al-Arkan Real Estate Development Company

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

CONSOLIDATED FINANCIAL STATEMENTS
AND AUDITORS' REPORT FOR THE FISCAL
YEAR 2016

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

SAUDI JOINT STOCK COMPANY

CONSOLIDATED FINANCIAL
STATEMENTS AND AUDITORS'
REPORT FOR THE YEAR ENDED

31 DECEMBER 2016

**AlKharashi & Co.**
Certified Accountants And Auditors**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 balance sheet of **Dar Al Arkan Real Estate Development Company** (A Saudi joint stock company) (the "Company") as at December 31, 2016, and the related statements of income, cash flows and changes in shareholders' equity for the year then ended, and notes 1 to 22 which form an integral part of these financial statements as prepared by the Company in accordance with Article 126 of the Regulations for Companies and submitted to us with all the necessary information and explanations which we required. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting standards used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified Opinion

In our opinion, the accompanying financial statements, taken as a whole, present fairly, in all material respects, the financial position of the Company as at December 31, 2016, and the results of its operations and its cash flows for the year then ended in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia appropriate to the nature of the Company, 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 financial statements.

For Al-Kharashi Co.

Suliman Al-Kharashi
Certified Public Accountant
License No. (91)



18 Rabi Al-Thani 1438H
(16 January 2017)

- 1 -

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Correspondent of
MAZARS

**CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2016**

	Notes	2016 SR 000	2015 SR 000
ASSETS			
Current Assets			
Cash and cash equivalents		582,088	1,001,061
Accounts receivable, net	(5)	1,839,470	1,948,687
Prepaid expenses and others	(6)	743,508	974,809
Developed land – short-term		317,325	437,185
Total Current Assets		3,482,391	4,361,742
Non-Current Assets			
Projects in progress – long-term	(8)	8,878,157	8,651,076
Investments in land under development	(9)	6,261,462	5,982,401
Developed land – long-term		1,581,442	1,963,764
Investment properties, net	(10)	3,424,778	3,501,637
Investment in associates	(11)	790,585	776,207
Property and equipment, net	(12)	66,131	68,416
Deferred charges	(13)	828	-
Total Non-Current Assets		21,003,383	20,943,501
TOTAL ASSETS		24,485,774	25,305,243
LIABILITIES AND EQUITY			
Current Liabilities			
Islamic borrowings – current portion	(14)	324,995	1,531,945
Due to a related party	(7 b)	193,363	194,253


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 2016

**Dar Al-Arkan Real Estate
Development Company**
SAUDI JOINT STOCK COMPANY
CONSOLIDATED FINANCIAL
STATEMENTS AND AUDITORS'
REPORT FOR THE YEAR ENDED
31 DECEMBER 2016

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2016

Accounts payable	(15)	174,199	173,433
Accrued expenses and others	(16)	699,653	697,349
Total Current Liabilities		1,392,210	2,596,980
Non-Current Liabilities			
Islamic borrowings	(14)	4,890,375	4,760,617
Provision for end-of-service indemnities	(17)	25,682	20,973
Total Non-Current Liabilities		4,916,057	4,781,590
Total liabilities		6,308,267	7,378,570
Shareholders' Equity			
Share capital	(18)	10,800,000	10,800,000
Statutory reserve		1,003,383	978,300
Retained earnings		6,374,124	6,148,373
Total Shareholders' Equity		18,177,507	17,926,673
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		24,485,774	25,305,243


 Managing Director


 Chief Financial Officer

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

**CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Notes	2016 SR 000	2015 SR 000
Revenues from operations		1,870,229	2,211,349
Cost of operations		(1,078,286)	(1,228,117)
Gross profit	(4)	791,943	983,232
Operating expenses:			
General, administrative, selling and marketing expenses		(156,005)	(204,238)
Depreciation	(12 a, b)	(4,023)	(3,593)
Amortisation of deferred charges	(13, 14a)	(32,448)	(35,993)
Income for the year from operating activities		599,467	739,408
Other Income / (expenses) :			
Share of income from investment in associates	(11)	12,878	12,800
Islamic Murabaha charges		(100,162)	(105,353)
Islamic Sukuk charges		(253,374)	(279,448)
Other (expenses)/ income, net		(32)	1,075
Income for the year before Zakat		258,777	368,482
Zakat provision		(7,943)	(9,325)
Net income for the year		250,834	359,157
Earnings per share for the year (in Saudi Riyal)	(19)		
From operating activities		0.56	0.68
From net income		0.23	0.33


Managing Director


Chief Financial Officer

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**Dar Al-Arkan Real Estate
Development Company**
SAUDI JOINT STOCK COMPANY
CONSOLIDATED FINANCIAL
STATEMENTS AND AUDITORS'
REPORT FOR THE YEAR ENDED
31 DECEMBER 2016

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

SAUDI JOINT STOCK COMPANY

CONSOLIDATED FINANCIAL
STATEMENTS AND AUDITORS'
REPORT FOR THE YEAR ENDED
31 DECEMBER 2016**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016**

	2016	2015
	SR 000	SR 000
CASH FLOWS FROM OPERATING ACTIVITIES		
Income for the year before Zakat	258,777	368,482
Adjustment for:		
Depreciation	77,500	72,818
Amortisation of deferred charges	32,448	35,993
Provision for end-of-service indemnities	6,317	4,537
Provision for doubtful debts	1,000	3,804
Gain on disposal of property and equipment	-	(142)
Share of income from investment in associates	(12,878)	(12,800)
Changes in operating assets and liabilities		
Accounts receivable	108,217	(204,713)
Prepaid expenses and others	(16,136)	15,077
Due from a related party	-	143
Developed land	502,182	342,960
Accounts payable	766	5,753
Accrued expenses and others	20,567	(80,639)
Cash generated from operations	978,760	551,273
Zakat paid	(26,206)	(57,903)
End-of-service indemnities paid	(1,608)	(2,108)
Net cash generated from operating activities	950,946	491,262



Managing Director



Chief Financial Officer

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016**

	2016	2015
	SR 000	SR 000
Projects in progress – long-term	(227,081)	264,980
Investments in land under development	(279,061)	(536,771)
Advance payments to purchase land	247,437	(173,189)
Investment properties	3,382	(3,411)
Investment in associates	(1,500)	-
Proceeds from disposal of property and equipment	-	142
Purchase of property and equipment	(1,738)	(730)
Net cash used in investing activities	(258,561)	(448,979)
CASH FLOWS FROM FINANCING ACTIVITIES		
Islamic borrowings	(1,110,468)	(1,350,059)
Short term deposit with banks	-	1,175,000
Due to a related party	(890)	(1,359)
Net cash used in financing activities	(1,111,358)	(176,418)
Decrease in cash and cash equivalents	(418,973)	(134,135)
Cash and cash equivalents, beginning of the year	1,001,061	1,135,196
CASH AND CASH EQUIVALENTS, END OF THE YEAR	582,088	1,001,061

**Dar Al-Arkan Real Estate
Development Company**
SAUDI JOINT STOCK COMPANY
CONSOLIDATED FINANCIAL
STATEMENTS AND AUDITORS'
REPORT FOR THE YEAR ENDED
31 DECEMBER 2016


Managing Director


Chief Financial Officer

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

**Dar Al-Arkan Real Estate
Development Company**
SAUDI JOINT STOCK COMPANY
CONSOLIDATED FINANCIAL
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31 DECEMBER 2016

	Share Capital	Statutory Reserve	Retained Earnings	Total Shareholders' Equity
	SR 000	SR 000	SR 000	SR 000
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	10,800,000	978,300	6,148,373	17,926,673
2016				
Balance as at 1 January 2016	10,800,000	978,300	6,148,373	17,926,673
Net income for the year	-	-	250,834	250,834
Transfer to statutory reserve	-	25,083	(25,083)	-
Balance as at 31 December 2016	10,800,000	1,003,383	6,374,124	18,177,507


 Managing Director


 Chief Financial Officer

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

1 GENERAL INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2-1 BASIS OF PREPARATION

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

2-2 ACCOUNTING CONVENTION

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

2-3 BASIS OF CONSOLIDATION

The consolidated financial statements of the Group incorporate the financial statements of the companies and enterprises controlled by the Group (its subsidiaries) made up to 31 December 2016.

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

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

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

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

Investments in Associates

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

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

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

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

2-4 PROPERTY AND EQUIPMENT

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

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

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

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

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

are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

2-5 REAL ESTATE ASSETS

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

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

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

2-6 INVESTMENT PROPERTIES

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

Buildings	3%
-----------	----

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

2-7 FINANCE CHARGES

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

2-8 FINANCIAL INSTRUMENTS

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

Accounts receivable

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

Cash and cash equivalents

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

Held for trading investments

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

Financial liabilities

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

Accounts payables

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

Commission rate swaps

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

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

2-9 IMPAIRMENT OF TANGIBLE ASSETS

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

2-10 REVENUE RECOGNITION

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

2-11 ZAKAT AND TAXATION

Zakat and tax is calculated and recognised in the statement of income for the year and for each financial year separately pursuant to Zakat and Tax Regulation in the Kingdom of Saudi Arabia. The provision for Zakat and Tax 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 financial statements and the provision as per final assessment issued by the General Authority of Zakat and Tax ("GAZT") are recognised in the 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 (129) of the Companies' Regulation (amendment 2016), the Group retains (10%) of net income against the statutory reserve. The Group may stop the deductions when this reserve reaches (30%) 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

Group as a lessor

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

Group as a lessee

At the inception of non-cancellable operating leases an asset identified as "right-of-use assets" measured at cost with appropriate discounting applied on relevant components of lease term and payment obligations including initial direct cost, lease escalations and lease incentives mentioned in the underlying lease agreement. Subsequent to the initial measurement and recognition, the "right-of-use assets" are periodically measured by using cost model which comprises initially measured cost and any re-measurement adjustments less accumulated depreciation.

Corresponding to this commencement date a "lease liability" is measured at the net present value of all the unpaid lease payments as on that date discounted at an appropriate rate. Subsequent to the initial measurements "lease liability" are periodically measured by increasing the carrying cost to reflect the interest charge on unpaid future lease liability and any re-measurement adjustment less lease payments made up to that date.

An appropriate rate of depreciation and profit rate should be applied on "right- of-use assets" and "lease liability" respectively. Such depreciation and interest shall be charged to the consolidated profit or loss as depreciation and finance charges.

2-17 OPERATING EXPENSES

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

3 USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with generally accepted accounting standards requires use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting 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	
	2016 SR 000	2015 SR 000
REVENUES FROM OPERATIONS		
Sale of land	1,724,681	2,075,265
Leasing of properties	145,548	136,084
Total	1,870,229	2,211,349
COST OF OPERATIONS		
Land	1,004,809	1,158,892
Leasing of properties	73,477	69,225
Total	1,078,286	1,228,117
GROSS PROFIT		
Land	719,872	916,373
Leasing of properties	72,071	66,859
Total	791,943	983,232

5 ACCOUNTS RECEIVABLE, NET

	2016 SR 000	2015 SR 000
Customers	1,858,489	1,966,706
Provision for doubtful debts	(19,019)	(18,019)
Total	1,839,470	1,948,687

Accounts receivable includes about (92%) (31 December 2015: 97%) receivables against land sales which are fully secured against such land parcels.

6 PREPAID EXPENSES AND OTHERS

	2016	2015
	SR 000	SR 000
Advance payments to purchase land	697,190	944,627
Prepaid expenses and other assets	22,842	11,290
Advance payments to contractors	9,263	9,432
Employees' advances and receivables	6,593	5,944
Advance payments to suppliers	4,513	2,676
Accrued revenue	2,208	-
Short term investment- trading (note 6a)	863	804
Others	36	36
Total	743,508	974,809

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	
	2016	2015
	SR 000	SR 000
Balance, beginning of the year	804	3,181
Additions (purchase/sold)	-	3,556
	804	6,737
Realised gains	59	330
	863	7,067
Transfer/withdrawals	-	(6,263)
Balance, end of the year	863	804

Investment includes SR 863 thousand as at 31 December 2016 (31 December 2015 SR 804 thousand) representing cash deposit held with the fund manager. The funds are expected to be invested in the subsequent periods.

7 RELATED PARTY TRANSACTIONS

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

a) Due from a Related Party

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

	For the year ended	
	31 December	
	2016	2015
	SR 000	SR 000
Balance, beginning of the year	-	143
Collections/adjustments	-	(143)
Balance, end of the year	-	-

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	
	2016	2015
	SR 000	SR 000
Balance, beginning of the year	194,253	195,612
Repayment of advances	(1,130)	(2,319)
Profit charged	240	960
Balance, end of the year	193,363	194,253

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: 15), are as follows:

	For the year ended	
	31 December	
	2016	2015
	SR 000	SR 000
Balance, beginning of the year	115	115
Amount paid during the year	-	-
Balance, end of the year	115	115

For the year ended 31 December 2016 and 2015, 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:

	2016	2015
	SR 000	SR 000
Projects in progress	8,878,157	8,651,076
Total	8,878,157	8,651,076

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 2015: nil) 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 2015: SR 364.5 million) as advance paid against new project.

10 INVESTMENT PROPERTIES, NET

	For the year ended	
	31 December	
	2016	2015
	SR 000	SR 000
COST		
At beginning of the year	3,717,560	3,714,149
Additions	(3,382)	3,411
At end of the year	3,714,178	3,717,560
ACCUMULATED DEPRECIATION		
At beginning of the year	215,923	146,698
Charged during the year	73,477	69,225
At end of the year	289,400	215,923
CARRYING AMOUNT AT THE END OF THE YEAR	3,424,778	3,501,637

Included within investment properties is land with an original cost of SR 578.1 million (31 December 2015: 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	
	2016	2015
	SR 000	SR 000
Balance, beginning of the year	776,207	763,407
Additions	1,500	-
Share of income	12,878	12,800
Balance, end of the year	790,585	776,207

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%
Juman Company	1,500	18%
Accumulated share of profit, net	41,538	
Balance, end of the year	790,585	

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

- xii. The Group had invested (51%) in Khozam Real Estate Development Company (KDC), with Jeddah Development and Urban Regeneration Company (JDURC). As per the arrangements the power to govern the financial and operating activities which affect the returns of KDC is jointly bestowed with the shareholders, accordingly the Group does not have any right to variable returns or absolute power to control with the ability to affect the returns of the investee company, consequently the Group's investment in KDC is accounted for as investment in associates under equity method of accounting.
- ii. The KDC investment include SR 250 million as an exclusive right to participate in 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 there is no diminishing in the value of the total investment.
- iii. During the year the group had invested (18%) in Juman Company a limited liability company under incorporation for the real estate development and paid towards its initial capital requirement for the formation of the company. This entity has not started any operation.



12 PROPERTY AND EQUIPMENT, NET

a) 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 2016	109,145	19,037	8,447	13,509	41,446	191,584
Additions for the year	-	-	-	-	612	612
Balance						
at 31 December 2016	109,145	19,037	8,447	13,509	42,058	192,196
Accumulated Depreciation Balance						
at 1 January 2016	42,123	19,037	8,445	13,480	40,083	123,168
Depreciation for the Year	3,016	-	-	27	623	3,666
Balance						
at 31 December 2016	45,139	19,037	8,445	13,507	40,706	126,834
Net book value						
31 December 2016	64,006	-	2	2	1,352	65,362
Net book value 31 December 2015	67,022	-	2	29	1,363	68,416

Included within land and buildings are land with an original cost of SR 9.50 million (31 December 2015: SR 9.50 million).

b) RIGHT TO USE ASSETS, NET

The balance represents the right to use assets for a lease arrangement as at December 31, 2016. It principally comprises the future lease payments discounted at appropriate rate. Depreciation is charged on straight line over the term of the lease.

	2016	2015
	SR 000	SR 000
COST		
At beginning of the year	-	-
Additions for the year	1,126	-
At end of the year	1,126	-
ACCUMULATED DEPRECIATION		
At beginning of the year	-	-
Charged during the year	357	-
At end of the year	357	-
NET BOOK VALUE AT THE END OF THE YEAR	769	-

13 DEFERRED CHARGES, NET

The movement during the year is as below:

	For the year ended 31 December	
	2016	2015
	SR 000	SR 000
Balance, beginning of the year	-	-
Additions during the year	828	-
Amortisation charge for the year	-	-
Balance, end of the year	828	-

14 ISLAMIC BORROWINGS

	2016	2015
	SR 000	SR 000
Islamic Sukuk	3,187,500	4,312,500
Islamic Murabaha	2,093,025	2,077,435
	5,280,525	6,389,935
Less: Un-amortised transaction costs	(65,155)	(97,373)
Islamic borrowings – end of the year	5,215,370	6,292,562
Less: Islamic borrowings – current portion	(324,995)	(1,531,945)
Islamic borrowings - long-term	4,890,375	4,760,617

a) Islamic Borrowings Transaction costs:

	For the year ended 31 December	
	2016	2015
	SR 000	SR 000
Balance, beginning of the year	97,373	107,790
Additions during the year	230	25,576
Amortisation charge for the year	(32,448)	(35,993)
Balance, end of the year	65,155	97,373

Analysis of Borrowings:**Islamic Sukuk**

This represents SR 3.2 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 1.50 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 2016.

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 11 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
2017	65,000	65,000	-
2020	1,194,375	236,250	958,125
2023	546,650	16,200	530,450
2027	287,000	15,000	272,000
TOTAL	2,093,025	332,450	1,760,575

The facility agreements include certain financial covenants, which the Group was in compliance with as at 31 December 2016.

15 ACCOUNTS PAYABLE

	2016	2015
	SR 000	SR 000
Contractors	145,128	153,315
Advances from customers	7,113	6,095
Suppliers (a)	7,064	13,751
Lease liability (note 15(i))	742	-
Others	14,152	272
Total	174,199	173,433

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

(i) LEASE LIABILITY

The balance represents the lease liability accounted on the commencement date of the lease for which the right to use assets for a lease arrangement as at December 31, 2016. It principally comprises the future lease payments discounted at appropriate rate.

	2016	2015
	SR 000	SR 000
LIABILITY		
At beginning of the year	-	-
Additions for the year	1,126	-
Finance cost	45	-
At end of the year	1,171	-
PAYMENTS		
At beginning of the year	-	-
Paid during the year	429	-
At end of the year	429	-
BALANCE AT THE END OF THE YEAR	742	-

16 ACCRUED EXPENSES AND OTHERS

	2016	2015
	SR 000	SR 000
Zakat provision (a)	537,494	555,757
Unearned revenue	64,515	38,833
Dividend payable	35,358	35,358
Accrued expenses	22,453	23,046
Islamic Murabaha charges	21,338	19,972
Islamic Sukuk charges	18,495	24,383
Total	699,653	697,349

Zakat and Tax provision

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

	2016	2015
	SR 000	SR 000
<u>Zakat base:</u>		
Equity	17,441,756	17,567,516
Provisions and other adjustments	2,980,955	2,919,451
Total Zakat base	20,422,711	20,486,967
Deductions:		
Total deduction after adjustment	(20,422,711)	(20,138,121)
Zakat base	-	348,846

(a) Adjusted net income for the year:

	2016	2015
	SR 000	SR 000
<u>Adjusted net income:</u>		
Income for the year before Zakat	244,801	373,019
Adjusted net income	244,801	373,019
Estimated Zakat and Tax provision for the year	7,943	9,325

b) The movement in provision for Zakat and Tax:

Zakat and Tax is recognized and provided for in the financial statements and the movement of Zakat and Tax is as follows:

	For the year ended 31 December	
	2016	2015
	SR 000	SR 000
Balance beginning of the year	555,757	604,335
Estimated Zakat and Tax for the year	7,943	9,325
Paid during the year	(26,206)	(57,903)
Estimated Zakat and Tax provision, end of the year	537,494	555,757

a) 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 company had filed the consolidated zakat return for years 2012, 2013, 2014 and 2015. The zakat return for the year 2016 is under filing process.

17 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	
	2016	2015
	SR 000	SR 000
Balance, beginning of the year	20,973	18,544
Charged to expenses during the year	6,317	4,537
Paid during the year	(1,608)	(2,108)
Balance, end of the year	25,682	20,973

18 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.

19 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	
	2016	2015
	SR 000	SR 000
<i>Earnings</i>		
For the purpose of basic earnings per share:		
Income for the year from operating activities	599,467	739,408
Net income for the year	250,834	359,157
<i>Number of shares</i>	<u>Number</u>	<u>Number</u>
Weighted average number of ordinary shares		
For the purpose of basic earnings per share	1,080,000,000	1,080,000,000

20 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

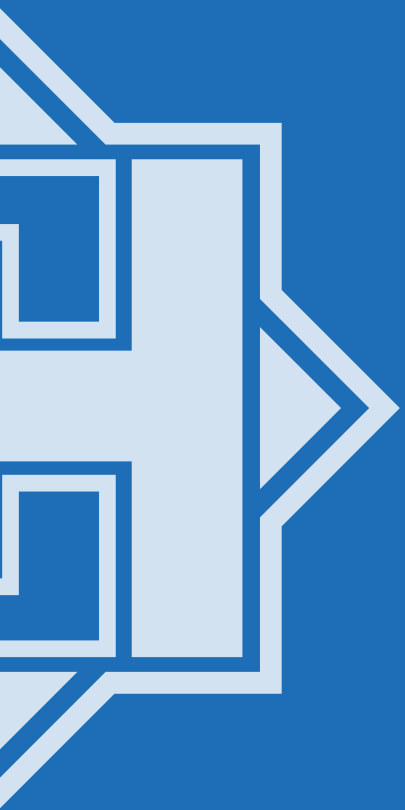
Fair Value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's-length transaction. As the consolidated financial statements are prepared under the historical-cost convention, differences can arise between the book values and fair-value estimates. Management believes that the fair values of the financial assets and liabilities are not materially different from their carrying values.

21 COMMITMENTS

As at 31 December 2016, 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 2015: SR 49 million) , and performance commitment through a bank guarantee for SR 74 million against receivable collected (31 December 2015: SR 74 million).

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