DAR AL ARKAN
دار الأركان

2017 ANNUAL REPORT

www.daralarkan.com
info@alarkan.com
800 123 3333

بسم الله الرحمن الرحيم

Dar Al Arkan Real Estate Development Company

REPORT OF THE COMPANY'S PERFORMANCE AND ACTIVITIES RESULTS FOR THE FISCAL YEAR 2017.

The Custodian of the Two Holy Mosques

King Salman Bin Abdulaziz Al Saud

His Royal Highness Crown Prince

Mohammad Bin Salman Bin Abdulaziz Al Saud

The Deputy Premier and Minister of Defense

Members of the Board

Yousef A. Al Shelash
Chairman

Majed A. Al Kasem
Vice Chairman

Abdullatif A. Al Shelash
Managing Director

Khalid A. Al Shelash
Member of the Board

Abdulaziz A. Al Shelash
Member of the Board

Tariq M. Al Jarallah
Member of the Board

Ahmed M. Al Dahash
Member of the Board

Hathloul S. Al Hathloul
Member of the Board

Majed R. Al Romi
Member of the Board

Dr. Abdulaziz I. Al Manie
Member of the Board

2017 ANNUAL REPORT

Dar Al Arkan Real Estate Development Company

Board of Directors' Report for the year ended 31 December 2017

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General Information

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

Company Activities

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 predominantly 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**

Message from the Chairman

Dear Shareholders,

On behalf of my fellow board members, I am delighted to present the annual report of Dar Al Arkan, covering the year ending 31st December 2017. With financial strength, passion and a prudent strategy we have taken advantage of opportunities that arise even in the somewhat uncertain economic times and challenging market conditions around the globe.

In 2017 we have continued to follow our long term strategy to broaden our geographic presence and further diversifying our revenue streams to strengthen our global stance as the Kingdom's largest listed real estate company.

Dar Al Arkan maintained its financial performance in 2017 and reinforced its ambitions for further growth. One financial milestone was the successful issuance of a $500M Islamic Sukuk that has been received with great demand by both local and international audience.

With great pride we have announced our most recent project in Dubai which is a flagship residential tower with interiors conceptualized by the accomplished Italian fashion designer Roberto Cavalli. In addition to the UAE we intend to further expand to other highly promising real estate domiciles around the world in order to continue to best serve our clients and investors and to offer highly attractive investments for our local and international clientele.

Yousef Bin Abdullah Al Shelash
Chairman

While maintaining our strong financial stature and further generating liquidity in order to move ahead with our ambitious expansion and diversification strategy the year 2017 was also marked as a year of restructuring and reformulating the corporate brand, spirit and identity.

Besides the exciting relaunch of our digital presence in the internet and social media we have introduced a new logo to commemorate our successful transition and ambitious future goals.

We continue optimizing our existing portfolio and strive to transform our organizational structure to serve customers and investors even better. Part of the strategic initiatives is to increase business focus which is supported by the new sales and marketing setup. More than two hundred sales personnel have successfully participated in our onboarding programme which includes best practice training and workshops to assure highest customer satisfaction for our services.

Our new structure is designed to further boost the company's performance and competitiveness fostering our emergence as one of the regions preferred real estate providers and helping the Kingdom of Saudi Arabia to fulfill the inspiring and revolutionary Vision 2030.

Under the Saudi Vision 2030, smart real estate solutions will play an integral role to help enhance the economy and to keep pace with the ongoing societal trends and needs.

Creating shareholder value via numerous successfully implemented initiatives in 2017 was rewarded with a significant increase in the DAAR share price which made it the best performing stock in Tadawul for the Year 2017. I would like to thank our shareholders for their continued loyalty and support.

DAAR has had another excellent year and is proud to announce that it has won the Private Sector Bond/Sukuk Deal of the Year 2017 Award as well as the Corporate Governance Company of the Year in Saudi Arabia 2017 by "The European" Award and Top Real Estate Companies in the Arab World by Forbes Middle East 2017 Award besides several other prestigious awards.

Valuing all our stakeholders I would like to personally thank my fellow Directors for their honest and wise counsel during the year. On behalf of the Board, I would also like to express my gratitude for Dar Al Arkan's management and most importantly the entire staff for their hard work to guarantee that the company delivers on its promises.

Numerous Awards alongside the stellar stock performance in 2017 showcase the interest and respect of the financial market participants which we continue to receive with great pride. We remain confident that Dar Al Arkan will continue to perform well during the challenging years ahead. Our aim is to work hard and do our very best to fare even better in 2018.

Yousef Bin Abdullah Al Shelash

Chairman

DAR AL ARKAN
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Under the Saudi Vision 2030, smart real estate solutions will play an integral role to help enhance the economy and to keep pace with the ongoing societal trends and needs.

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To the 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 2017.

2 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 HD, corresponding to 17/07/2005.

The company operates mainly 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.

2.1 The company's subsidiaries

Company name	Capital	Expertise Sector	Location	Ownership	Registration Number	Entity
Dar Al Arkan Projects Company	SR 500,000	Construction of residential and commercial buildings (construction, maintenance, demolition, (and restructuring	Kingdom of Saudi Arabia	100%	1010247583	Limited Liability Company
Dar Al Arkan Properties(Real Estate) Company	SR 500,000	Development as well as acquisition of commercial, and residential real estate. Provision of management, operations, and maintenance of residential facilities, commercial buildings, and public facilities	Kingdom of Saudi Arabia	100%	1010254063	Limited Liability Company
Dar Al Arkan Investment Company	SR 500,000	Real estate procurement, acquisition, leasing, and investment	Kingdom of Saudi Arabia	100%	1010247585	Limited Liability Company
Dar Al Arkan Sukuk Company	SR 500,000	Real estate investment and development	Kingdom of Saudi Arabia	100%	1010256421	Limited Liability Company

Sukuk Al Arkan Company	SR 500,000	Development, maintenance, and management of real estate as well as land procurement, and general contracting	Kingdom of Saudi Arabia	100%	1010274407	Limited Liability Company
Thawabit Investment Company	SR 500,000	Real estate investment and development	Kingdom of Saudi Arabia	100%	1010275449	Limited Liability Company
Dar Sukuk International Company	SR 500,000	Real estate investment and development	Kingdom of Saudi Arabia	100%	1010275448	Limited Liability Company
Dar Al Arkan Properties Company	SR 100,000	Real estate investments and developments, leasing and property management	Kingdom of Saudi Arabia	100%	1010521509	Limited Liability Company

2.1.1 Investments in subsidiary companies as defined by the rules of the Capital Market Authority (CMA)

Company name	Capital	Expertise Sector	Location	Ownership	Registration Number	Entity
Khozam Real Estate Development Company	SR 540 Million	Real estate development (development of Qasr (Khozam Project	Kingdom of Saudi Arabia	51%	4030193909	Limited Liability Company
Alkhair Capital	SR 300 Million	Management, arrangement, and financial advisory services	Kingdom of Saudi Arabia	34%	1010264915	Limited Liability Company

3 Description of company's activities and contribution to revenues

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

3.1 Properties Development

Properties development which includes:

- **Land Projects**: Basic infrastructure development of undeveloped land
- **Residential and Commercial Projects**: the development of residential and commercial projects and the sale of units on such projects

During the fiscal year 2017 this division accounted for SAR 4,585 million, representing 96.83 % of the Company's total revenues, as compared to SAR 1,725 million, or 92.20% in 2016.

3.2 Asset management

Property Management and Leasing is Dar Al Arkan's second largest and fastest growing division. Leasing and management of properties that the Group has retained as rental properties including commercial and residential units on its Master-Planned Communities for generating recurring revenues. In 2017, revenues generated in Asset Management amounted to SAR 150 million and represented 3.17% of Group revenues as compared to SAR 146 million and 7.80 % of total revenues in 2016.

Dar Al Arkan Real Estate Development board of directors approved on 28 December 2017 the floatation of a 30% stake of wholly-owned subsidiary, Dar Al Arkan Properties in initial public offering (IPO).

Samba Capital was appointed as financial adviser for the planned offering. Dar Al Arkan Properties, 100% owned by Dar Al Arkan Real Estate Development, focuses on development and management of income-generating assets.

It is worth mentioning that the offering procedures are still in the initial stages (Assets valuation and market study) and then they will apply to the Capital Market Authority CMA.

3.3 Investments

Strategic investments in companies that management believes are complementary to the Group's real estate development operations. During 2017, these investment activities were not significant to the Company's net profits as their contribution accounted for only 3.71% of Dar Al Arkan's net profit.

During 2017, no other material elements impacted the Company's net income. However, the Company earned SAR 36.7 million representing 6.6% of net income as profit from short term Islamic Deposits.

4 Saudi real estate sector overview

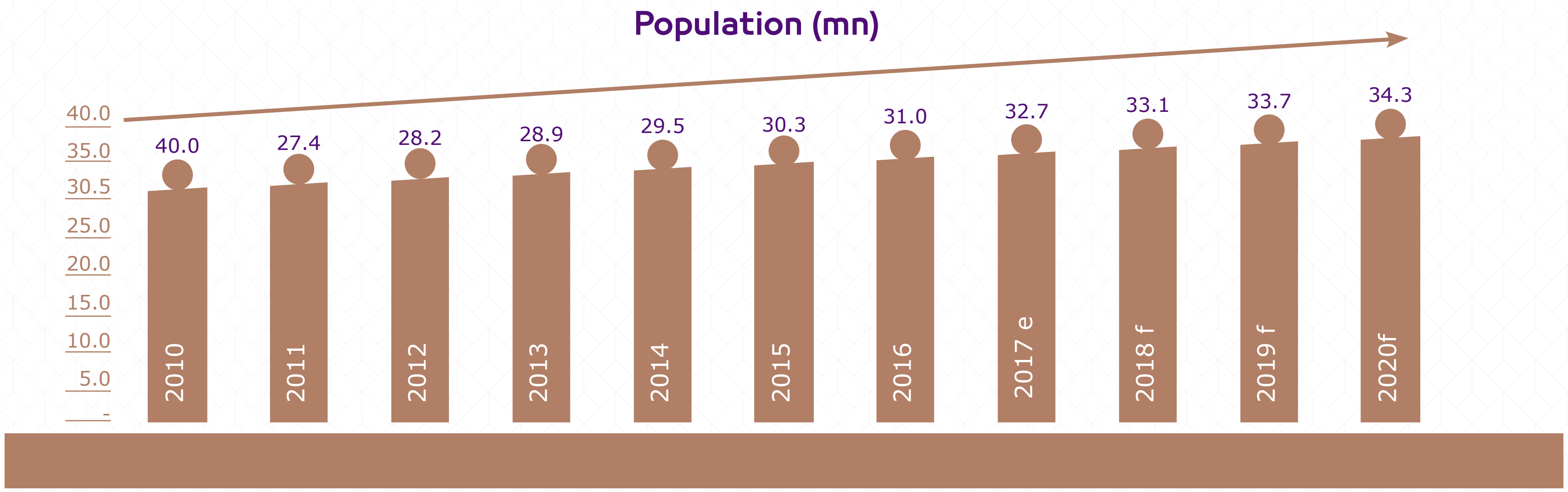
4.1 Current position of the Saudi real estate market

The Saudi real estate sector continues to enjoy growth opportunities, benefiting from combination of factors, increased in demand for residential and commercial properties due to population growth.

The population of Saudi Arabia is estimated at 32.6 million as at 31 July 2017, representing a growth of 2.6% compared to 31.8 million as at 31 July 2016. The World Bank estimates that the Kingdom's population will reach 35.5 million by 2025 and about 43.2 million by 2050.

In general, one of the most prominent housing characteristics of the Kingdom is the high rate of population growth. The society is considered young, as more than half of Saudi citizens are under the age of 30 year old. The Kingdom has also witnessed rapid urbanization in recent decades. More than 80% about half of the population is concentrated in the top six cities Riyadh, Jeddah, Mecca, Madinah, Taif and Dammam. The total demand for housing is expected to reach 3.3 million units.

The real estate sector in Saudi Arabia, including the residential sector, which is a large part of the real estate sector, is growing driven by a strong and growing economy as well as favorable demographic fundamentals.



Source: Statistics Authority, KSA

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	Days 730	Days 60	Days 44	Days 26
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	years 15	years 5	N/A	

Source: Saudi Arabia NTP 2020

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.

4.2 Update on mortgage legislation and its anticipated impact

In February 2016, SAMA increased the limit on real estate financing from 70 per cent to 85 per cent of the value of a home (effectively reducing the minimum required down payment on a home from 30 per cent. to 15 per cent.), on the basis that the previous requirement had resulted in a market slowdown and was prohibitive to many low-to middle-income Saudi nationals. In January 2018, SAMA further increased the limit on real estate financing from 85 per cent. to 90 per cent for first time home buyers. The increase in the loan-to-value is expected to encourage mortgage financing which could benefit the real estate sector. Dar Al Arkan will be a direct beneficiary of increased availability of mortgages.

4.3 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.

   Dar Al Arkan recently received an initial assessment notice for SAR 22 million on certain land parcels in Jeddah and Riyadh. The Company filed an objection to the notice on the grounds of non-applicability, citing that the land parcels are under development. Dar Al Arkan has since received a waiver for the Jeddah land tax amounting to SAR 13 million and discussions with the relevant authorities are still ongoing with respect to the Riyadh land tax.

5 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	▪ 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	▪ 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	▪ Designing and planning; ▪ Obtaining the required permissions; ▪ Earth work including excavation and backfilling ▪ Land zoning/ phasing	Semi-developed land plots
4	Infrastructure development	▪ Materials and technology ▪ Roads, sidewalk pavement, and landscaping ▪ Utilities & service networks	Fully developed lots
5	Superstructure development	▪ Designing ▪ Construction plan ▪ Materials and technology ▪ Commissioning and correction of potential defects	Semi-finished Residential/ Commercial unit
6	Finishing and decoration	▪ 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	▪ 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.

In addition, as part of its international growth strategy, Dar Al Arkan opened sales offices in Dubai and Sarajevo in June 2017 and September 2017, respectively. Dar Al Arkan also launched its first international real estate development project in December 2017, with the launch of the I Love Florence Tower, a development of bespoke apartments with luxury interiors designed by Roberto Cavalli on the Dubai Canal, United Arab Emirates. Dar Al Arkan intends to continue to utilize its real estate development expertise to undertake further international real estate development projects. Dar Al Arkan's decision to commence operations in a particular country will be based on numerous factors, including economic and political stability at that time, the state of development of that particular country (favoring emerging economies where greater returns can be realized), and the level of competition in the country and the macro-economic conditions of the country.

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:

5.1 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.

5.2 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.

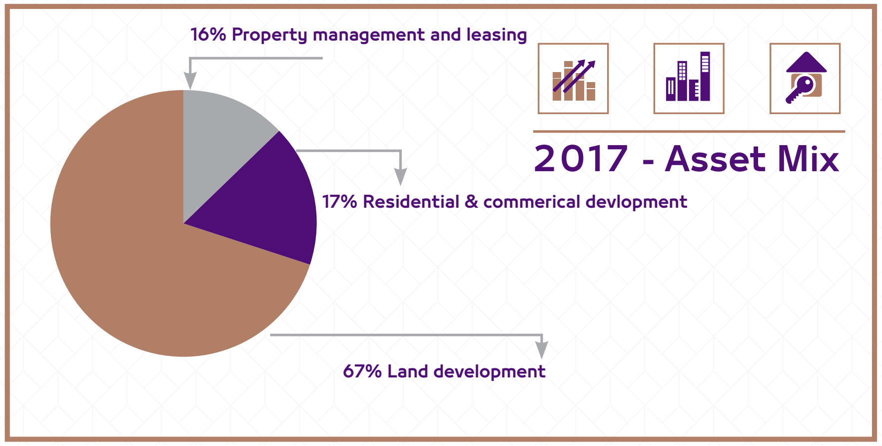
6 The Strategy

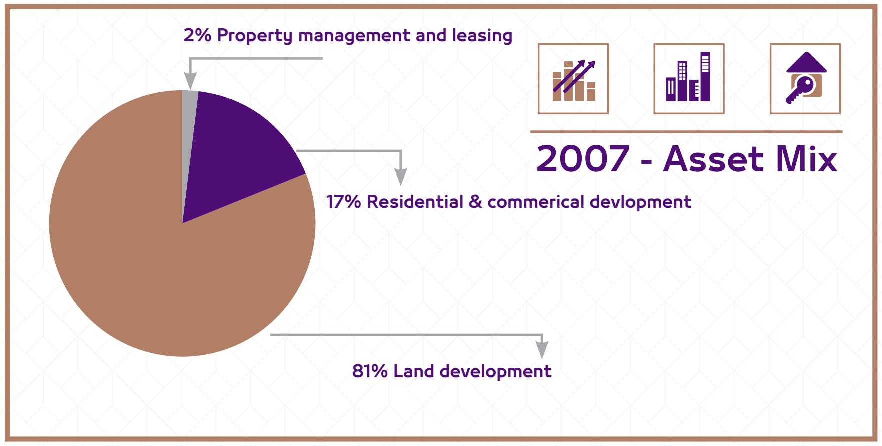
Despite the recent volatility in the real estate sector in the long term Dar Al Arkan remains true to its strategic focus of developing master-planned communities, homes, shopping and business centers for the fast growing Saudi Arabian middle-income consumer segment.

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, while capitalizing on the opportunity to build more residential and commercial units from the company's development plans.





6.1 Diverse land bank

Dar Al Arkan 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.

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.

6.2 Residential and commercial development

6.2.1 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.

6.2.2 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, and the accumulated experience that enables it to support and implement the plans and objectives of the Ministry of Housing to solve the problem of affordable housing. Therefore, affordable housing will be one of the key elements in the company's plans and objectives. Dar Al Arkan will continue to respond to queries from the Ministry of Housing to participate in the development of affordable housing projects throughout the Kingdom.

6.2.3 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 public 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.

6.2.4 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 2017 asset book value reached to SAR 3.3 billion. Key customers continue to demand new units in Dar Al Arkan properties in Riyadh, Makkah and Medina. The company will continue to benefit from the growth in its mixed-use masterplans as it adds appropriate assets from Shams Ar Riyadh and Shams Al Arous masterplans to its residential and commercial leasing portfolios.

6.3 Other strategic real estate investments

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

6.4 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, off plan and leased asset based funding will grow proportionally with our revenue diversification strategy.

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 and international 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 A3/P2 credit rating from RAM. The Management is committed to maintaining relationships with credit agencies and takes all steps to improve performance for further upgrades.

7 Residential and commercial development

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.

7.1 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.

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 2017, 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.

During 2017, and in order to validate the direction of the market and feasibility study, DAAR tendered Juman Marine Engineering Services to various international companies (ATKINS, ARCADIS, GURG, IWC, SELHORN, and AECOM). The bidding stage will be proceed during the first Quarter of 2018.

JUMAN PROJECT

The project is located in the Eastern Province overlooking Tarout bay. It involved 8.2 million sq.m of land reclamation.

7.2 Shams Ar Riyadh project

Strategically located in the growing northwest of Riyadh, Dar Al Arkan is developing Shams Ar Riyadh master-planned community project. Shams Ar Riyadh 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.

During the 2017, four concept master plans were prepared for the 4 Zones (1, 3, 4 & 5). 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. DAAR cooperated with the various international companies, Creato Arquitectos for Architecture design, Roberto Cavalli and Versace for interior design in order to design five mock-up villas to offer alternatives for the investors. The infrastructure design was awarded to the international consultant (AECOM), awaiting the final approval for Master Plan to commence.

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. 1.8 million sqm of the masterplan footprint has already been sold.

The table below shows the project in numbers:

Shams Ar Riyadh by Numbers*	
Detail	**Number**
Total Land area	3.2 million sqm
Phase 1	
Residential land sale	629,000 sqm
Luxury Branded Villas for sale	325 nos (on off plan basis based on market conditions)
Retail Strip	104,000 sqm with GLA of 55,000 sqm
Phase 2	
Residential land for sale	1.3 m sqm
Commercial land for sale	550,000 sqm with BUA of 3 million sqm

*Based on current development plan
** Excluding land cost

SHAMS AR RIYADH PROJECT

The expansive master plan of Shams Ar Riyadh is strategically located in the north of Riyadh.

7.3 Shams Al Arous project

Shams Al Arous is the company's third master-planned community project and is strategically located 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 52m 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 2017 and in order to validate and maintain the infrastructure of Shams Al Arous project, and keeping up with the updated requirements for Saudi Electricity Company (SEC), Dar Al Arkan tendered infrastructure rehabilitation to local contractors.

Retail strip development will provide unique retail attraction and anchor Shams al Arous project. The development for such project is planned to start in 2018. Master plan approvals are under process.

The table below shows the project in numbers:

Shams Al Arous in Numbers*	
Detail	**Number**
Total project's net remaining area	807,641 (m²)
Retail Strip Development	
Lot Size	55,000 sqm
GLA (shops)	31,000 sqm
Designer	VX Dubai

*Based on current development plan.

7.4 Naeem El Jiwar project

Naeem El Jiwar project is located in southwest Medina, on Prince Sultan Road, one of the main roads in Medina, within the Alharam zone boundaries. 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.

Al Tilal in Numbers*	
Detail	**Number**
Residential land area to be sold/ developed	202,430 (m²)
Total number of developed villas	379

SHAMS AL AROUS PROJECT

Coming up in the downtown of Jeddah, the ambitious community project of Shams Al Arous is the third master plan, visioned by Dar Al Arkan.

7.5 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 then at SAR 264.7 million, while Dar Al Arkan owns the remaining (51%) through Dar Al Arkan Projects Company (fully owned by Dar Al Arkan Real Estate Development Company), 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.

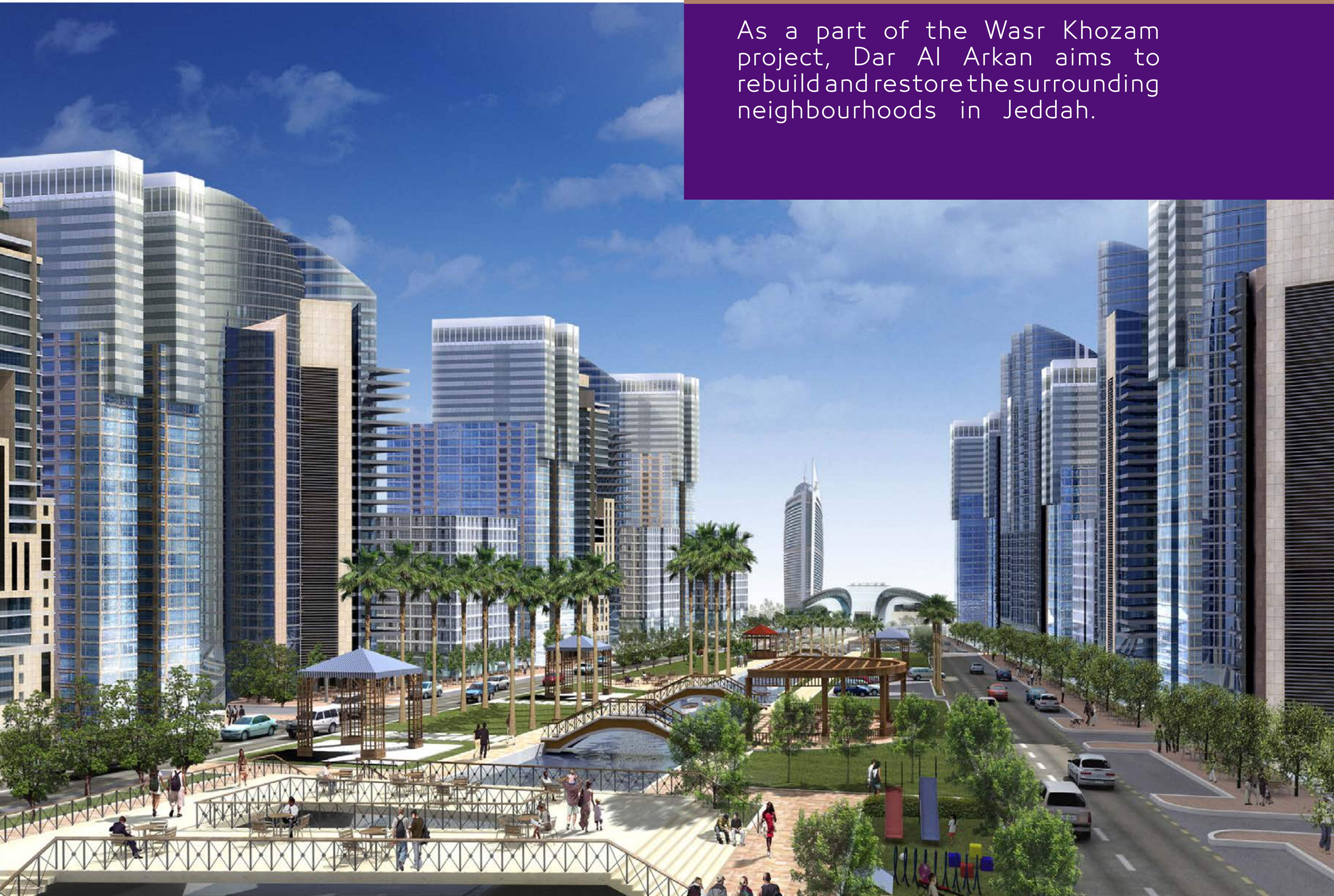
The project was able to accomplish several goals, particularly:

1. Preparing a master plan for the project, which was approved by the Ministry of Municipal and Rural Affairs, issued on13/08/2010. The plan was adopted by His Excellency the Mayor of Jeddah, who issued for this purpose the accredited regulatory scheme No. 15 /M/T/U. The technical expertise of Dar Al Arkan was best demonstrated through the development of the main plan, which earned the Mecca Award of Urban Excellence;
2. 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
5. 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.

QASR KHOZAM DEVELOPMENT

As a part of the Wasr Khozam project, Dar Al Arkan aims to rebuild and restore the surrounding neighbourhoods in Jeddah.



8 International Expansion

Entering into a new geographical market requires a significant diversion of resources and capital allocation, and therefore there can be no assurance that Dar Al Arkan's international expansion strategy will diversify Dar Al Arkan's revenue streams and generate sufficient income as intended.

8.1 I Love Florence Tower, UAE

Dar Al Arkan launched its first international real estate development project in December 2017, with the launch of the I Love Florence Tower, comprising bespoke apartments with luxury interiors designed by Roberto Cavalli on the Dubai Canal, United Arab Emirates, as part of its international growth strategy.

The I Love Florence Tower is in the business bay area with a value of SAR 817 million (USD 218 million).

The tower reaches 34 stories and contains one, two, three and four bedroom apartments.

This project is located in the Business Bay area & accessible to some of Dubai's key areas and destinations such as Downtown Dubai, The Dubai Mall, Marasi and Dubai International Airport

Off Plan Sales was launched of sales in December 2017 in Dubai followed by January launch in KSA.

In terms of construction, drilling and foundation works was awarded to GFG Group. It will also lay the foundation of the project and carry out the excavation work for the whole site.

Al-Tilal in Numbers*	
Detail	**Number**
Saleable (GFA)	42,000 sqm
Project value	SAR 817 mn
Number of Units	399
Number of Stories	34

9 Property management and leasing

9.1 Overview

The year 2017 marked another period of progress, albeit slower than hoped for growing recurring income. At the end of 2017, revenue from leased assets amounted SR 150 million, a moderate growth of SAR 4 million compared to 2016 and accounted for 3% 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.

I LOVE FLORENCE TOWER, UAE

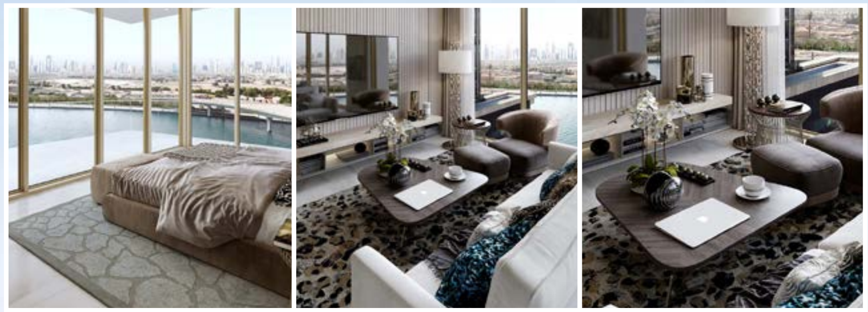
Located in Business Bay, I Love Florence Tower is valued at SR817 Million (USD 218 Million)

The tower reaches 34 stories and contains studio, one, two, three and four bedroom apartments.

I LOVE FLORENCE TOWER

Interiors by

roberto cavalli



Stronger and more rigid property management systems have been implemented to ensure retention of tenants and stimulate demand.

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 2018 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 2018 will be to enhance current performance, generate efficiencies and aggressive marketing, while improving our customer service proposition.

9.2 Description of the leased asset portfolio

9.2.1 Parisiana Community

Parisiana (previously named AlQasr) 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 (2,350 apartments, 66 villas, 343 retail units and 65 office units) the Parisiana 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 2017, Parisiana maintained 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 Parisiana include health care sector tenants. Additional 150 unties were leased this year.

PARISIANA COMMUNITY

Parisiana (previously named AlQasr) is Dar Al Arkan's first residential community in the Kingdom.

9.2.2 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 220,000 square meters, 499 units , including 3 anchors, 4 sub anchors, 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.

The year 2017 witnessed an expansion in the leasing activity of Qasr Mall, where the company entered into several leasing agreements with a number of famous brands such as Addidas, Basicxx, Gingersnaps, BreadTalk, Top Chief, And Vrigien. 2018 will witness an intensive marketing and rental campaign to generate a surge in visitors.

9.2.3 Azizia Towers

The Azizia Towers 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 Azizia Towers 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 285 apartments and six showrooms with a total area of 41,720 square meters .The Towers are fully leased to King Abdullah Medical City.

9.2.4 Naeem Al Jiwar

Naeem Al Jiwar is located in the South West of Madinah, on Prince Sultan Bin Abdulaziz Road, within the Holy Prophet Mosque Haram area. Naeem Al Jiwar is a comprehensive urban development, on 2.2 million square meters of land, with 499 villas (with 279 villas available for lease), provision of land for schools, mosques, and parks and with developed land plots for sale in the remaining area.

During 2017 leasing activity was directed to the corporate and individual segments, both of which are growing in importance in the Madinah area. Improvements are also being also planned to the public areas and street- scape.

Financial Statements

DAR
AL ARKAN
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2017
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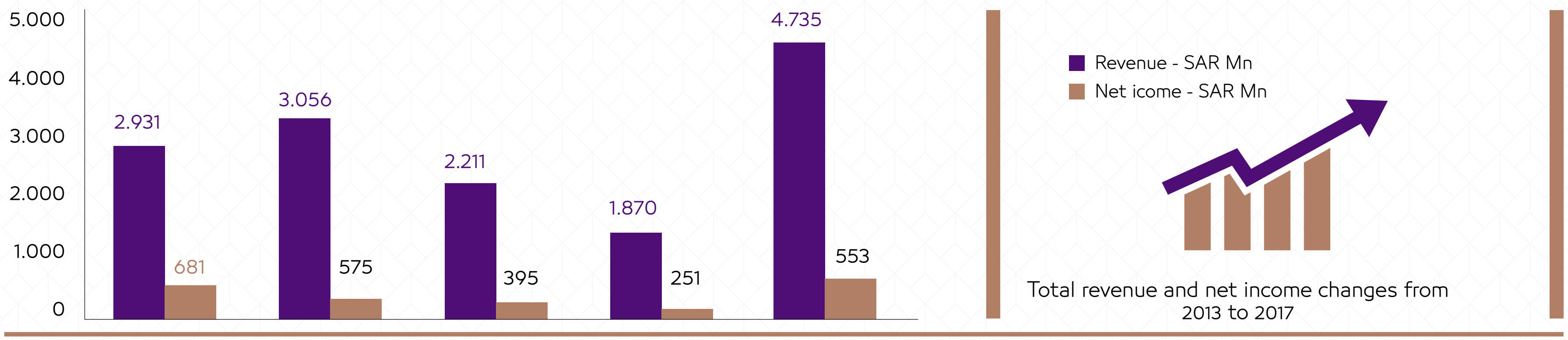
10 Financial results

10.1 Income statement for the fiscal years 2013 to 2017

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

Item (in SAR '000s)	2017	2016	2015	2014	2013
Operations' revenue	4,734,682	1,870,229	2,211,349	3,056,060	2,931,168
Cost of revenue	3,620,672)	(1,078,286)	(1,228,117)	(1,756,805)	(1,778,097)
Gross profit	1,114,010	791,943	983,232	1,299,255	1,153,071
Principal activities expenses	(162,002)	(160,028)	(243,824)	(279,341)	(182,692)
Net income from principal activities	952,008	631,915	739,408	1,019,914	970,379
Financing expense	441,523	(385,984)	(384,801)	(493,294)	(313,959)
Net other Income	57,326	12,846	13,875	62,895	42,570
Net income before Zakat provisions	567,811	258,777	368,482	589,515	698,990
Zakat provisions	(14,443)	(7,943)	(9,325)	(14,820)	(17,528)
Net income	553,368	250,834	359,157	574,695	681,462
Earnings per share	0.51	0.23	0.33	0.53	0.63

Total revenue and net income changes from 2013 to 2017



10.2 The balance sheet for the fiscal years 2013 to 2017

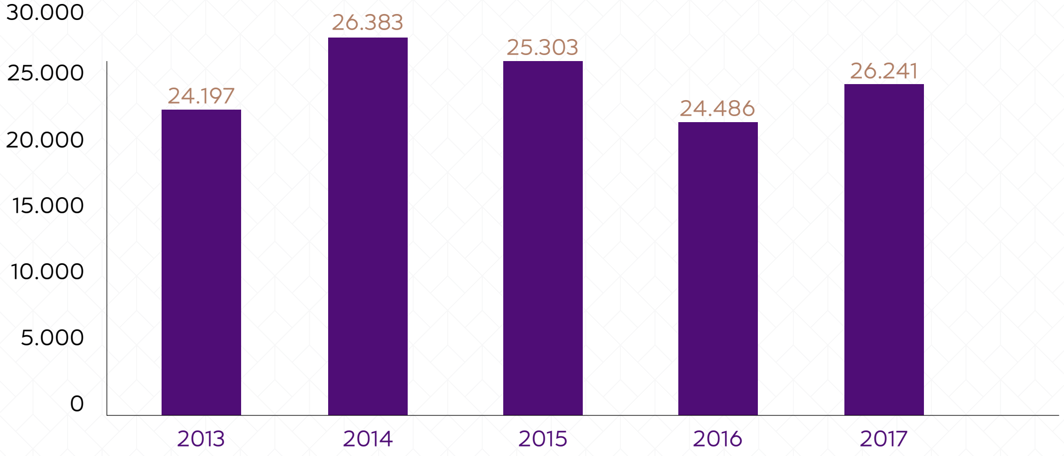
The following table illustrates the main balance sheet items for the last five years. This should be read in conjunction with the audited consolidated financial statements and accompanying notes.

Item (in SAR '000s)	2017	2016	2015	2014	2013
Current Asset	7,315,666	3,482,391	4,361,742	5,668,959	5,099,412
Non-current Asset	18,854,714	20,937,252	20,875,085	20,642,308	19,023,550
Fixed Asset	70,925	66,131	68,416	71,279	74,370
Total Asset	26,241,305	24,485,774	25,305,243	26,382,546	24,197,332
Current Liabilities	2,765,460	1,392,210	2,596,980	3,337,922	2,027,894
Non-Current Liabilities	4,742,295	4,916.057	4,781,590	5,477,108	5,176,617
Total Liabilities	7,507,755	6,308,267	7,378,570	8,815,030	7,204,511
Capital	10,800,000	10,800,000	10,800,000	10,800,000	10,800,000
Statutory reserve	1,058,720	1,003,383	978,300	942,384	884,914
Retained earnings	6,874,830	6,374,124	6,148,373	5,825,132	5,307,907
*Total shareholders' Equity	18,733,550	18,177,507	17,926,673	17,567,516	16,992,821
Total Liabilities and Shareholders' Equity	26,241,305	24,485,774	25,305,243	26,382,546	24,197,332
*Book value per share	17.35	16.83	16.60	16.27	15.73

*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.

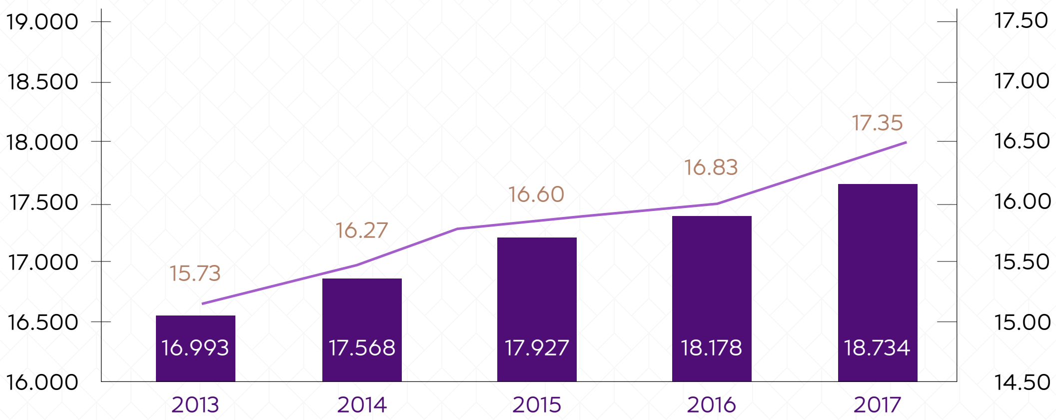
Note: The Company discloses that for commercial and practical reasons, it registers some of its real estate assets under the name of representatives or agents, in return for official documents against them evidencing the Company's ownership of these assets. This procedure is adopted by some local Saudi 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.

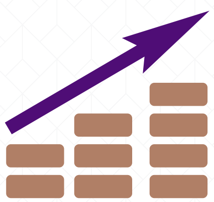
Total assets from 2013 to 2017



Total assets from 2013 to 2017

Shareholders' equity and share book value changes from 2013 to 2017





Shareholders' equity and share book value changes from 2013 to 2017

10.3 Results of operations

10.3.1 Geographical analysis of company revenue for the year

Location (in SAR '000s)	Land projects	Lease	Residential developments	Total
Western region	3,474	32	-	3,506
Central Region	914	118	21	1053
Eastern Region	176	-	-	176
Total	4,564	150	21	4,735

10.3.2 Comparison of revenue and net income

The following table compares the results of operations for 2016 and 2017:

Item (in SAR '000s)	2017	2016	Change	Change %
Revenues	4,734,682	1,870,229	2,864,453	153.16%
Cost of revenues	(3,620,672)	(1,078,286)	(2,542,386)	235.78%
Gross Profit	1,114,010	791,943	322,067	40.67%
Principal activities expenses	(162,002)	(160,028)	(1,974)	1.23%
Net income from principle activities	952,008	631,915	320,093	50.65%
Financing charges	(441,523)	(385,984)	(55,539)	14.39%
Net other Income	57,326	12,846	44,480	346.26%
Net Income before Zakat provisions	567,811	258,777	309,034	119.42%
Zakat provisions	(14,443)	(7,943)	(6,500)	81.83%
Net Income	553,368	250,834	302,534	120.61%
Earnings Per Share	0.51	0.23	0.28	121.74%

10.3.3 Revenues

Total revenues were SAR 4,735 million in 2017, compared to SAR 1,870 million in 2016, representing an increase of 153.16%. The increase is mainly due to the increase in land sales as well as sale of residential properties worth SAR 21 million against nil in 2016.

Rental revenues increased by 3% to reach SAR 150 million during 2017 compared to SAR 146 million in 2016 due to the growing occupancy ratios of the company's residential and commercial properties assigned for lease.

Revenues from the sale of land were SAR 4,563 million in 2017 compared to SAR 1,725 million in 2016, representing an increase of 164% mainly due to higher area of land sold compared to 2016.

10.3.4 Cost of Revenue

Cost of revenue accounted for SAR 3,621 million in 2017 representing 76.5% of total revenues compared to SAR 1,078 million in 2016, representing 58.3% of total revenues. This increase in the cost of revenue is mainly due to the lower gross profit generated by land sales revenue in 2017 compared to 2016.

10.3.5 Selling and general administrative expenses

Selling and general administrative expenses were SAR 162 in 2017 million compared to SAR 160 million in 2016, representing a marginal increase of 1.2%. The increase is primarily due to the increase and mix of manpower.

10.3.6 Financing charges

Net financing charges were SAR 442 million in 2017 as compared to SAR 386 million in 2016, representing an increase of 14.39% amounting to SAR 56 million. This increase is primarily attributable to the issuance of new sukuk of SAR 1.87 billion (US$ 500 million) in April 2017 resulting a higher average debt in 2017 as compared to 2016.

10.3.7 Net other income

Net other income was SAR 57 million in 2017 compared to SAR 13 million in 2016. The increase is primarily due to interest earned on the higher cash balance maintained & kept in murabhaha deposits during 2017.

10.3.8 Net income

Net income in 2017 was SAR 553 million compared to SAR 251 million in 2016. Earnings per share were SAR 0.51 in 2017 as compared to SAR 0.23 in 2016. In conclusion from the above, the increase in net income was driven by higher land and property sales in spite of drop in gross margins and marginal increase in net finance cost and selling and administrative expenses.

10.4 Liquidity and capital resources

As of 31 December 2017, we had cash and cash equivalents of SAR 3,160 million as compared to SAR 582 million as at 31 December 2016.

10.4.1 Cash flow

The following table sets out the Company's cash flows for the financial periods 2017 and 2016:

(millions SAR)	2017	2016
Funds from Operating Activities	1,437	691
Funds (used in)/ from Investing Activities	(9690)	199
Funds from/ (used in) Financing Activities	1,151	(1,110)

Net cash flow from operations stood at SAR 1,437 million in 2017 compared to SAR 691 million in 2016. The positive variance is mostly related to the cash generated from the sale of development properties in 2017.

Additional investment in properties and equipment's have primarily led to an overall outflow of cash in investing activities of SAR 10 million in 2017 as compared to SAR nil million in 2016.

The cash inflow from financing activities of SAR 1,151 million was primarily due to issuance of Sukuk VIII in April 2017 of SAR 1,7 million.

10.4.2 Projects and Investment Expenditures

Our priorities for expenditure on projects include continuing to build integrated residential developments and developing existing lands. During 2017, we spent SAR 1,322 million primarily on development of existing lands.

11 Dividend policy

Article (45) of the Company's Articles of Association stipulates that:

The Company's net profits shall be distributed after deduction of all general expenses and other expenses including Zakat in the following manner:

1. Ten percent (10%) of net profits shall be set aside to build up a statutory reserve. The Ordinary General Assembly may stop or reduce the rate of this deduction for reserve if the statutory reserve has reached an amount equal to thirty percent (30%) of the paid capital.
2. The Ordinary General Assembly may, according to the recommendation of the BoD, set aside an equal rate of net profits to build up an agreed-upon reserve to be allotted for certain purpose(s).
3. The Ordinary General Assembly may resolve to build up other reserves to the extent that benefits the company or allows for the distribution of fixed profits to shareholders. The Ordinary General Assembly may also cut from the net profits certain amounts to be used for the establishment of social institutions for company employees or for assisting the existing institutions.
4. The Ordinary General Assembly may decide, according to the recommendation of the Bod, to distribute from the remainder an amount not exceeding 1% of the paid capital to the shareholders.
5. The Ordinary General Assembly may decide, according to the recommendation of the Bod, to distribute the remainder to the shareholders as additional share of profits at the rate recommended by the BoD and approved by the General Assembly.
6. The company may make periodical distribution of profits to its shareholders: half-yearly or quarterly in accordance with the rules and instructions issued by the Capital Market Authority. This is done in the light of a delegation issued by the Ordinary General Assembly to the BoD to distribute profits at stages. This delegation shall be annually renewed.

12 The company's financing program

12.1 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. 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 seven Sukuks.

Total funds raised from Sukuk amounted to SAR 14.7 billion, SAR 10 billion of which has already been repaid as of end of 2017, whereas the remaining SAR 4.7 billion maturity is spread till 2022 with SAR 1.3 billion maturing in 2018. 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 2017 was SAR 1.76 billion.

The ratio of International Islamic Sukuks to total financing amount as of the end of 2017 was approximately 73%, whereas the Murabahas and Ijaras with local and regional banks were 27%. 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 given the excellent track record, it will continue maintaining this relationship by accessing the domestic and international capital markets.

12.2 Indebtedness

All financing taken by the company locally or internationally is Shariah-compliant and follows the structures of Ijarah and Murabaha transactions. Below is a description of the repayments and outstanding debts at the end of 2017.

12.2.1 Indebtedness details & decrease in financing at the end of 2017

During 2017, the company raised new Sukuk financing of SAR 1.9 billion. The company also successfully repurchased SAR 345 million of the fifth Sukuk of SAR 1.7 billion ahead of its maturity in May 2018. It also repaid some of the local bilateral Murabaha facilities amounting to SAR 332 million.

Bilateral Islamic Facilities	Settlement	Original Amount	Starting Date	Opening Balance	Addition During 2017	Paid During 2017	Closing Balance	Maturity
:Murabaha Local Bank ANB	Half yearly settlement	130	02 Feb 2015	65	-	65	-	Oct 31 2017
:Murabaha Local Bank Muscat	Quarterly settlement	175	26-Mar 2015	147	-	16	131	Sep- 30 tember 2022
:Murabaha Local Bank Muscat	Bullet	400	14-Dec 2016	400	-	-	400	May 14 2023
:Murabaha Local Bank alinma	Quarterly settlement from Q2 2016	300	11Jun 2015	287	-	15	272	May 31 2027
:Ijarah International Banks	Quarterly settlement	1,427	11Jul 2015	1,194	-	236	958	Jul 31 2020
Gross Total		**2,432**		**2,093**	**-**	**332**	**1,761**	

The ratio of gross debt to capitalization stood at 25% at the end of 2017. The closing cash balance increased to SAR 3.16 billion at the end of 2017 compared to SAR 582 million at the end of 2016. The increase was mainly due to the increase in revenue and the issuance of new sukuk of SAR 1.9 billion issued in early 2017.

Summary of the Murabaha and Sukuk due maturities

Maturity	In million Saudi Riyals		
	Outstanding balance	Murabaha	Sukuk
2018	1,691	347	1,349
2019	1,859	359	1,500
2020	350	350	-
2021	36	36	-
2022	1,953	78	1,875
onwards 2023	591	591	-
Total	**6,480**	**1,761**	**4,724**

13 Related party transactions

During 2017, 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:

13.1 Saudi Home Loans "SHL"

In the ordinary course of business, the company enters into transactions with Saudi Home Loans "SHL". SHL is a related party and the company owns a 15% equity stake equivalent to 30 million shares out of 200 million issued shares. The common Board members between SHL and Dar Al Arkan are namely; Mr. Yousef Abdullah Al Shelash, Mr. Hathloul Saleh Al Hathloul, Mr. Abdullatif Abdullah Al Shelash and Dr.Abdulrahamn Alharkan (until 15/5/2017) then Mr.Ziad Elchaar were appointed as a board member on 18/9/2017. 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 2017, there were no transactions and have any outstanding balance to be paid or settled by this related party.

13.2 Khozam Real Estate Development Company (KDC)

Khozam Real Estate Development Company (KDC) is a related party as the company has a 51% equity holding equivalent to 27,554,651 shares out of total equity of 54,028,728 shares and also has common members in Board of Managers who are in the Board of Directors of Dar Al Arkan. The common management committee members are Mr. Abdullatif Abdullah Al Shalash and Dr.Abdulrhman AlHarkan (until 5/5/2018). The management of KDC requested that it invests its excess cash balance (opening balance as at beginning of 2017 amounted to SAR 193.36 million) with Dar Al Arkan at a nominal interest repayable on demand to facilitate its working capital needs. During 2017 the company repaid SAR 1.55 million of this amount in advance; together with interest of SAR 0.72 million for its operational requirements. The closing balance as at 31 December 2017 was SAR 192.53 million. This transaction was approved during the AGM on May 01 2017 and the company can repay the amount and close the balance anytime.

13.3 Bank Alkhair

Bank Alkhair B.S.C is a related party as it has common Board Members with Dar Al Arkan. The common Board Members are Mr. Yousef Abdullah Al Shelash, Mr. Majed Abdulrahman 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 2017 there were no fees and expenses charged except the opening balance of SAR 0.1 million, remainder of the amount paid in earlier has been settled during 2017.

13.4 Alkhair Capital

Alkhair Capital is a related party as the company owns a 34% equity stake equivalent to 10,200,000 shares out of total issued shares of 30 million, and also has common Board Members with Dar Al Arkan. The common Board Members are Mr. Yousef Abdullah Al Shelash, Mr. Hethloul Saleh Al Hethloul, and Mr. Abdullatif Abdullah Al Shalash. Alkhair Capital Saudia and AlKhair Capital Dubai were 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 also provides Shariah compliance reviews and management support for the international Sukuk issuances, the partial pre-closure of the Sukuk and leasing/ subleasing of properties. During 2017 fees and expenses charged was SAR 5.03 million of which SAR 4.13 million is already paid resulting to an outstanding balance of SAR 0.90 be paid or settled in 2018. This transaction was approved during the AGM on May 01 2017

14 Risks attributable to the company's activities

The Company has adopted appropriate risk management policies and procedures to manage operational, financial, market-related and other risks. Risk management is an integral part of the company's activities and decision-making processes. The company aims to secure an acceptable balance between risks and returns as the company seek to achieve the business goals.

DAAR Risk Management Framework applies international risk standards, which cover a logical and systematic way to determine, analyze, assess, treat, monitor and report the significant risks that faced by DAAR and to take appropriate decisions and prompt respond to risks or potential opportunities that have an impact the company's competitiveness. Risks by their nature can cause unforeseen outcomes and following ISO-based process is not by itself a guarantee that all risks can be managed to ensure that they do not have any impact on the business.

14.1 The risks that the Company may face and the risk management & control policy

The following section describes the principal risks facing the company and our efforts to mitigate them. It should be noted that there could be no assurance that these efforts will be successful in mitigating these risks, wholly or partly. It should also be noted that the following section is intended to be only summary and there are numerous other risks, which could materially affect the company's financial condition and operation results adversely.

1. Price fluctuation

The company cannot control the market prices of its real estate products, and the market fluctuations in product prices may directly affect revenues. This effect can be positive in times of rising product prices, or can be negative when product prices decline, leading to a significant impact on profitability and cash flows.

In general, the Company seeks to mitigate this risk by providing cost-effective products and to satisfy the requirements of tenants and / or buyers. The excess supply of real estate products in the market, with the low prices, might lead to exit high-cost real estate developers while cost balanced companies could maintain their position in the market as they continue to operate with a positive cash margin.

2. Cyber security

Cyber-attacks and security breaches may threaten the integrity of our intellectual property and other sensitive information, disrupt operations and activities, and result in material damage, reputational harm and other negative consequences that could have material adverse effort on our financial condition and the results of operations.

The company has expert IT staff that specialize in protecting and securing information, constantly reviewing security threats and looking for opportunities to enhance information security.

3. Project development and execution

Project identification, development and execution phases might be exposed to material risk. Ineffective development or execution of a key project can compromise the capital expenditure budget and schedule, and consequently affect the company's profitability, growth prospects, reputation, and overall financial health.

To minimize these risks, development and investment decisions in respect to the current and new projects are made using a "Stage Gate" project system to ensure that the current or new projects properly account for the costs, risks and expected returns of the investment.

During execution, project managers including third party expert companies are used to manage progress to ensure project completion on budget, quality and schedule. This includes providing monthly completion reports and capital expenditure reports to the executive management to monitor progress, identify slippage and propose remedial action.

4. Marketing

In case of market decline, the company faces the risk of insufficient clients (decrease in demand) for all its real estate products (residential or commercial). Also delay in leasing and / or selling real estate products may have a negative impact on the company's profitability and cash flows.

To minimize these risks, the Company seeks to diversify its product portfolio to meet the market conditions as much as possible and to reach the possible tenant and / or the buyers using effective marketing tools such as direct or electronic marketing.

5. Health, safety and security

The Company's real estate products or projects may have inherent health, safety and security risk that could result in serious personal injury or other operational and financial losses.

The company seeks to mitigate these risks through implementing the health and safety procedures in all sites in accordance with local recognized health and safety standards. The company has a system of monthly reporting and all incidents are reviewed with the goal of drawing lessons and preventing recurrence.

6. Liquidity

The company may experience specific risks in providing the liquidity required to meet the obligations related to the financial instruments to which the Company is committed for the benefit of the third parties.

To minimize the liquidity risk and associated losses on the business of the Company, the Company, where possible, maintains sufficient highly liquid current assets in all working conditions. The Company is no longer financing long-term capital requirements through short-term borrowing and current account transactions with related parties.

The company also finances long-term projects through long-term loans only. Moreover, he company applies a highly dynamic cash flow estimation policy and a system whereby it can estimate the dates of obligations maturity and develop appropriate plans to provide the resources required to meet these obligations in a timely manner.

7. Cost of funding

The cost of financing has reached acceptable levels in the recent years. There is no absolute assurance that this situation will continue. Any significant increase in financing costs could have a negative impact on profitability and cash flows.

The company seeks to ensure that its debt facilities are of an appropriate size and structure for the business and regularly monitors changes in the costs of funding.

8. Lack of capacity/skills

The availability of skilled manpower (sales, marketing, asset management, etc.) remains one of the key long-term challenges. Succession challenges and the ability to attract, develop and retain top talent may limit our ability to complete projects, run the company's operations achieve the company strategy.

The company runs its own in-house training program to develop its staff and prepare them for succession roles. In addition, DAAR signed an agreement with the Saudi Real Estate Institute (SREI) promising active involvement in the fields of professional training and employment.

9. Credit risk

Credit risk is the failure of any party to meet an obligation which causes the other party to incur a financial loss.

A) In general, the Company's sales policy is not based on credit sales, but in some cases secured by guarantees for the Company, the amounts are paid in installments specified by some customers who are given this option carefully and according to the commercial interest of Dar Al Arkan. In such cases, the Company may be exposed to credit risk in respect of the amounts due from such customers.

The Company postpones the final handover of the sold property or delays the transfer of ownership to the beneficiary to minimize the risk until the full due amount is paid as per the sale contract. The collection of payments is regularly monitored, therefore the Company's exposure to credit losses is limited.

B) in respect of the credit risk of other financial assets of the amounts due from related parties, bank deposits, trade receivables and other receivables;

The maximum credit risk exposure to the Company is limited to its book value if other parties are unable to meet their obligations associated with DAAR.

our financial condition and the results of operations.

10. Commission rate

Commission rate risk results from value fluctuation of a financial instrument due to changes in commission rates prevailing in the market.

A) The Company is exposed to commission rate risk in respect of its loan obligations for Islamic Murabaha facilities (credit facilities) obtained from local banks.

Each time the short-term loans are renewed, the Company negotiates the terms and conditions to obtain the best contractual terms and the best commission rate possible, thus reducing the associated risks.

B) The Company has a specific rate swap contract to manage commission rate risk. The Company's international loan commission rates are mainly based on LIBOR, and its local loans are based on SIBOR. Therefore, the Company's exposure to commission risk is varying according to the changes in the LIBOR and SAIBOR rates.

The commission rate sensitivity is analyzed based on the Company's exposure to variable commission risk as of the balance sheet date. The calculation of floating commission rates is processed based on the assumption that the liabilities at the reporting date are for a full year.

C) The Company's net profit may be affected by the above amount as a result of such changes that may occur in commission rates of the market if there is capitalization of borrowing costs that are directly related to long-term under construction projects.

The differences in the period in which they occur are charged to the Consolidated statement of profits or losses and other comprehensive income. There is no impact on the attached consolidated financial statements because there is no capitalization of the borrowing costs during the current year as well as the comparative year. The Company capitalizes the equivalent of 10% of the borrowing costs which comply with the capitalization requirements of projects under construction as described in Note (2/9) to the audited financial statements.

11. Foreign exchange

Foreign exchange risks are associated with the fluctuation of the book value of the financial instrument in the functional currency resulting from changes in foreign exchange rates.

The functional currency of the Company is the Saudi Riyal, which is pegged to the US Dollar at a fixed rate of 3.75 Saudi Riyals per US Dollar. The Company did not make any significant transactions in currencies other than the Saudi Riyal and the US Dollar during the year.

12. Change in Islamic financial instruments

As part of financial assets and liabilities management, the Company uses variable Islamic financing instruments to hedge the exposure to commission rate and cash flow risk. This is generally achieved by hedging certain transactions.

The company uses variable tools for Islamic finance primarily to manage exposure to foreign exchange and commission rates risk. By maintaining variable Islamic financial instruments, the Company's primary objective is to reduce outflows of foreign currency associated with the changes in foreign exchange and fixed commission rates. The changing financial instruments of the Company's Islamic finance are subject to credit risk to the extent that the counterparty defaults on meeting its contractual obligations.

The Company mitigates these risks by dealing with key financial institutions as counterparties. The Company's management does not expect any significant loss or risk from the default of counterparties as the potential risks of such failures are monitored periodically.

Organization and Management

DAR
AL ARKAN
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15 Management and administration

15.1 Board of Directors

During 2017, 11 members of the Board of Directors run the Company, of whom two are executive, four are non-executive and five are independent members (the board approve the resignation of Dr.Abdulrhman Alharkan on 15/5/2017). The Board members attendance during 2017 is as shown below:

#	Name	Capacity/ membership	Attendance	Other JSC Membership	Location
1	**Yousef AbdullahAl Shelash**	Chairman/ non-executive	3	▪ Saudi Home loans Co. (SHL) ▪ Alkhair Investment Bank ▪ Alkhair Capital	KSA Bahrain KSA
2	**Abdullatif Abdullah Al Shelash**	Executive	3	▪ Saudi Home loans Co. (SHL) ▪ Alkhair Investment Bank ▪ Alkhair Capital ▪ T'azur Company	KSA Bahrain KSA Kuwait
3	**Dr. Abdulrahman Alharkan***	Executive			
4	**Hathloul Bin Saleh Al Hathloul**	Non-executive	2	▪ Saudi Home loans Co. (SHL) ▪ Alkhair Capital	KSA KSA
5	**Khalid Abdullah Al Shelash**	Non-executive	3		
6	**Tariq Bin Mohamed Al Jarallah**	Independent	3		
7	**Abdul Aziz Abdullah Al Shelash**	Non-executive	3		
8	**Majid Bin Romi Al-Romi**	Independent	2		
9	**Ahmed Mohammed Al Dahash**	Independent	2		
9	**Majed Abdul Rahman Al Qasim**	Independent	2	▪ Alkhair Investment Bank	Bahrain
10	**Abdulaziz Ibrahim Almani**	Independent	2		

* Resigned on May 15 2017, Executive.

15.2 About the Board of Directors

Name	Current job	Previous job	Qualifications	Experience
Yousef Abdullah Al Shelash	▪ Chairman of Dar Al Arkan Real Estate Development Company ▪ Chairman of Saudi Home loans "Sahl" ▪ Chairman of Al Khair Capital Saudi Arabia ▪ Chairman of Al Khair Bank - Bahrain	Businessman	▪ Bachelor of Islamic Law from Imam Muhammad bin Saud Islamic University ▪ Diploma of Studies in Procedural Systems from the Institute of Management	▪ Strategic Planning ▪ Real estate development expert
Hathloul Bin Saleh Al Hathloul	▪ Member of the board of Dar Al Arkan Real Estate Development Company ▪ Member of the board of Saudi Home loans "Sahl" ▪ Member of the board of Al Khair Capital Saudi Arabia	Businessman	▪ Diploma of Business Science	▪ Investment and Mortgage Finance ▪ Strategies, plans and installment programs
Khalid Abdullah Al Shelash	▪ Member of the board of Dar Al Arkan Real Estate Development Company	Businessman	▪ Bachelor of Security Sciences King Fahd Security College	▪ Real estate development ▪ Resource management and building implementation ▪ Investment and real estate valuation
Majid Romi Al-Romi	▪ Member of the board of Dar Al Arkan Real Estate Development Company ▪ Member of the board of Maalem financing	Businessman	▪ Master of Business Administration	▪ Investment, valuation and real estate finance
Tariq Bin Mohamed Al Jarallah	▪ Member of the board of Dar Al Arkan Real Estate Development Company	Businessman	▪ Diploma of Accounting and Business Sciences	▪ Planning and planning of land ▪ Evaluation and valuation of real estate

15.2 About the Board of Directors

Name	Current job	Previous job	Qualifications	Experience
Abdul Aziz Abdullah Al Shelash	▪ Member of the board of Dar Al Arkan Real Estate Development Company	Businessman	▪ Bachelor of Islamic Studies from Imam Muhammad bin Saud University	▪ Real estate development ▪ Evaluation and valuation of real estate
Majed Abdul Rahman Al Qasim	▪ Member of the board of Dar Al Arkan Real Estate Development Company ▪ Member of the board of Al Khair Bank - Bahrain	Businessman	▪ Bachelor of Islamic Law from Imam Muhammad bin Saud Islamic University ▪ Diploma of Studies in Procedural Systems from the Institute of Management	▪ Strategic Planning ▪ Real estate development expert
Abdullatif Abdullah Al Shelash	▪ Member of the board of Dar Al Arkan Real Estate Development Company ▪ Member of the board of Saudi Home loans "Sahl" ▪ Member of the board of Al Khair Capital Saudi Arabia ▪ Member of the board of Al Khair Bank – Bahrain ▪ Member of the board of Tazer Company- Bahrain	Businessman	▪ Bachelor of Institution Leadership and Supervision from Purdue University, USA	▪ Strategic Planning ▪ Business Development and Information Technology
Dr.Abdul Aziz Ibrahim Almani	▪ Member of the board of Dar Al Arkan Real Estate Development Company	▪ University Professor ▪ Minister of State in the Council of Ministers ▪ Member of the Shoura Council	▪ Bachelor of Civil Engineering, University of Santa Clara, USA ▪ Master of Civil Engineering from Stanford University, USA ▪ Ph.D. in Civil Engineering from Stanford University, USA	▪ Strategic Planning ▪ Engineering Education ▪ Management Systems
Ahmed Mohammed Al Dahash	▪ Member of the board of Dar Al Arkan Real Estate Development Company	Businessman	▪ General education	▪ real estate development ▪ Property Management ▪ Investment and real estate valuation

15.3 Board meetings register

#	Name	19-Feb	1-May	26-December	Total
1	**Yousef Abdullah Al Shelash**	✓	✓	✓	3
2	**Abdullatif Abdullah Al Shelash**	✓	✓	✓	3
3	***Abdulrahman Hamad Al Harkan**	✓	✓	x	2
4	**Hathloul Bin Saleh Al Hathloul**	x	✓	✓	2
5	**Khalid Abdullah Al Shelash**	✓	✓	✓	3
6	**Tariq Bin Mohamed Al Jarallah**	✓	✓	✓	3
7	**Abdul Aziz Abdullah Al Shelash**	✓	✓	✓	3
8	**Majid Romi Al-Romi**	x	✓	✓	2
9	**Ahmed Mohammed Al Dahash**	x	✓	✓	2
10	**Majed Abdul Rahman Al Qasim**	✓	✓	x	2
11	**Abdul Aziz Ibrahim Almani**	✓	x	✓	2

*Until May 15th 2017

15.4 Board committees

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

15.4.1 The executive committee, consisting of:

#	Name	Capacity/membership	Attendance	Notes
1	**Yousef Abdullah Al Shelash**	Chairman	4	
2	**Abdullatif Abdullah Al Shelash**	Member	4	
3	**Abdulrahman Hamad Al Harkan**	Member	1	Resigned in May 15th 2017
4	**Tariq Bin Mohamed Al Jarallah**	Member	4	
5	**Majed Abdul Rahman Al Qasim**	Member	4	

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 2017.

The executive committee meetings register

#	Name	8-Feb	19-Septemebr	3-October	28-December
1	**Yousef Abdullah Al Shelash**	✓	✓	✓	✓
2	**Abdullatif Abdullah Al Shelash**	✓	✓	✓	✓
3	***Abdulrahman Hamad Al Harkan**	✓	x	x	x
4	**Tariq Bin Mohamed Al Jarallah**	✓	✓	✓	✓
5	**Majed Abdul Rahman Al Qasim**	✓	✓	✓	✓

15.4.2 The audit committee

During General Assembly's meeting in June 1st 2017 has approved the selection of its members and its functions and controls work and rewards for its members. The audit committee consisting of:

#	Name	Capacity/ membership	Attendance	Notes
1	**Tariq Bin Mohamed AlJarallah**	Chairman	6	
2	**Majed Bin Abdulrahman Al Gasim**	Member	6	
3	**Hathloul Bin Saleh Al Hathloul**	Member	6	
4	**Majed Bin Romi Al Romi**	Member	6	

The committee's responsibilities and meetings:

The Audit Committee shall have the authority to monitor the Company's business and shall have the right to inspect its records and documents and to request any clarification or statement from the members of the Board of Directors or the Executive Management.

The Committee shall perform its approved functions, including supervising the Company's internal audit department and studying its reports. Internal Audit, in addition to the study of annual financial statements, the accounting policies adopted and recommending the Board of Directors to nominate the auditors of the company, and study the reports of the regulatory authorities on the company's compliance with the regulations and instructions.

The employees of the company are able to provide their observations regarding any violation of the company's internal regulations. The committee submits its recommendations to the board of directors.

The Audit committee held six meetings during 2017. The committee discussed and reviewed the quarterly and annual financial statements for the year 2016 and passed their recommendations to the Board.

The audit committee meetings register

#	Name	16-January	12-Febreury	27-March	19-April	19-July	8-November
1	**Hathloul Bin Saleh Al Hathloul**	✓	✓	✓	✓	✓	✓
2	**Tariq Bin Mohamed Al Jarallah**	✓	✓	✓	✓	✓	✓
3	**Majid Romi Al-Romi**	✓	✓	✓	✓	✓	✓
4	**Majed Abdul Rahman Al Qasim**	✓	✓	✓	✓	✓	✓

15.4.3 The nominations and remuneration committee, consisting of:

#	Name	Capacity/ membership	Attendance	Notes
1	**Majed Bin Abdulrahman Al Qasim**	Chairman	2	
2	**Yousef Abdullah Al Shelash**	Member	2	
3	**Ahmed Mohammed Al Dahash**	Member	2	
4	**Abdulaziz Ibrahim Almani**	Member	2	

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 two meetings during 2017.

The nominations and remuneration committee meetings register

#	Name	14-May	31-May
1	**Majed Bin Abdulrahman Al**	✓	✓
2	**Majed Abdul Rahman Al Qasim**	✓	✓
3	**Yousef Abdullah Al Shelash**	✓	✓
4	**Ahmed Mohammed Al Dahash**	✓	✓

15.5 Board members General Assembly meetings register 2017

#	Name	1-May
1	**Yousef Abdullah Al Shelash**	✓
2	**Abdullatif Abdullah Al Shelash**	✓
3	***Abdulrahman Hamad Al Harkan**	✓
4	**Hathloul Bin Saleh Al Hathloul**	✓
5	**Khalid Abdullah Al Shelash**	✓
6	**Tariq Bin Mohamed Al Jarallah**	✓
7	**Abdul Aziz Abdullah Al Shelash**	✓
8	**Majid Romi Al-Romi**	✓
9	**Ahmed Mohammed Al Dahash**	x
10	**Majed Abdul Rahman Al Qasim**	✓
11	**Abdul Aziz Ibrahim Almani**	x

16 Remuneration and compensation paid to the Board members and senior executives

The following table shows the remuneration and compensation paid to Board members and the top five senior executives who received the highest bonuses and compensation from the Company during 2017.

Description (in '000 Saudi Riyal)	Executive Board members	Non-executive/independent Board members	Senior executives (including MD, CEO and CFO)
Salaries and compensation	-	-	5,185
Allowances	-	-	3,024
Periodic and annual bonuses	-	-	-
Incentive plans	-	-	-
Any other compensations or incentives paid monthly or annually	-	-	432
End of service contribution			857

17 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 2017

<table>
<tr><th>Name</th><th>Capacity</th><th>No. of Shares at the beginning of the year</th><th>Ownership at the beginning of the year (%)</th><th>Chnage in the No. of shares during the year</th><th>Total Shares at the end of the year</th><th>Ownershipe at the end of the year (%)</th><th>Nature of Ownership</th></tr>
<tr><td>Yousef Abdullah Al Shelash</td><td>Chairman</td><td>1,000</td><td>0.0001%</td><td>0</td><td>1,000</td><td>0.0001%</td><td>Direct</td></tr>
<tr><td>Hathloul Bin Saleh Al Hathloul</td><td>Board Member</td><td>8,028,850</td><td>0.7434%</td><td>0</td><td>8,028,850</td><td>0.7434%</td><td>Direct</td></tr>
<tr><td rowspan="2">Khalid Abdullah Al Shelash</td><td>Board Member</td><td>27,723,293</td><td>2.5670%</td><td>0</td><td>27,723,293</td><td>2.5670%</td><td>Direct</td></tr>
<tr><td></td><td>957</td><td>0.0001%</td><td>0</td><td>957</td><td>0.0001%</td><td>Direct owned by direct relative</td></tr>
<tr><td rowspan="2">Majed Abdul Rahman Al Qasim</td><td>Board Member</td><td>3,844,550</td><td>0.3560%</td><td>0</td><td>3,844,550</td><td>0.3560%</td><td>Direct</td></tr>
<tr><td></td><td>639,154</td><td>0.0592%</td><td>0</td><td>639,154</td><td>0.0592%</td><td>Direct owned by direct relative</td></tr>
<tr><td>Tariq Bin Mohamed Al Jarallah</td><td>Board Member</td><td>3,000</td><td>0.0003%</td><td>0</td><td>3,000</td><td>0.0003%</td><td>Direct</td></tr>
<tr><td>Abdul Aziz Abdullah Al Shelash</td><td>Board Member</td><td>3,849,550</td><td>0.3564%</td><td>0</td><td>3,849,550</td><td>0.3564%</td><td>Direct</td></tr>
<tr><td>Majid Romi Al-Romi</td><td>Board Member</td><td>3,844,550</td><td>0.3560%</td><td>0</td><td>3,844,550</td><td>0.3560%</td><td>Direct</td></tr>
<tr><td>Abdullatif Abdullah Al Shelash</td><td>Board Member</td><td>9,137,550</td><td>0.8461%</td><td>0</td><td>9,137,550</td><td>0.8461%</td><td>Direct</td></tr>
<tr><td>Ahmed Mohammed Al Dahash</td><td>Board Member</td><td>2,005,104</td><td>0.1857%</td><td>0</td><td>2,005,104</td><td>0.1857%</td><td>Direct</td></tr>
<tr><td>Abdulrahman Hamad Al Harkan</td><td>Board Member</td><td>10,000</td><td>0.0009%</td><td>0</td><td>10,000</td><td>0.0009%</td><td>Direct</td></tr>
<tr><td>Abdulaziz Ibrahim Almani</td><td>Board Member</td><td>1,300</td><td>0.0001%</td><td>0</td><td>1,300</td><td>0.0001%</td><td>Direct</td></tr>
<tr><td>Ahmed bin Saleh Salman Al Dehilan</td><td>Internal Audit Manager</td><td>80,000</td><td>0.0074%</td><td>0</td><td>80,000</td><td>0.0074%</td><td>Direct</td></tr>
<tr><td colspan="2">TOTAL</td><td>59,168,858</td><td>5.4786%</td><td>0</td><td>59,168,858</td><td>5.4786%</td><td></td></tr>
</table>

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

During 2017, there was no share ownership of 5% or more.

19 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 required articles of the corporate governance regulations issued by the Capital Market Authority. 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 Market Law issued by Royal Decree No. M/30 dated 02/06/1424H and its regulations issued by the Board of the Capital Market Authority Pursuant to Resolution Number (8-16-2017) Dated 16/5/1438H Corresponding to 13/2/2017G;

2. The Companies' Law of Saudi Arabia No. M/3 dated 28/01/1437H and associated ministerial directives of the Ministry of Commerce & Investment; and
3. The amended Dar Al Arkan's Articles of Association.

19.1 The provisions of the Corporate Governance Regulations, unless applicable, and the reasons for this

The Company applies all the provisions of the Corporate Governance Regulations issued by the CMA, except for the following provisions:

Article number / paragraph	Text of the article / paragraph	Reasons for non-application
Article 8: Election of the members of the Board of Directors - Paragraph (b)	(B) Cumulative voting shall be used in the election of the Board of Directors, so that the voting rights may not be used for shares more than once.	The current session of the Council ends on 23 June 2019. The cumulative vote will be applied when the members of the Council are elected at its next session.

20 Internal audit

The Internal Audit is one of the important 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 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 2017, the Internal Audit department worked very closely with other departments by providing them with 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.

21 Internal control

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

21.1 Features of the internal control system

The control environment in the company

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

Advanced information systems

The company builds its advanced systems to comply with international standards, establishing effective internal controls that produce accurate and transparent information. Below are the achievements for the year 2017

Infrastructure

- Server virtualization for high availability and failover.
- New UPS system implemented and a backup power generator is under implementation to ensure continuity of IT services to the business.
- Considering the criticality of the systems hosted in the data center, access control, and monitoring systems implemented to monitor and take proactive actions.

IT Application

Oracle ERP upgraded to the latest Version (12.2.6)

Enhancement of core business processes to introduce additional features and functionality in Sales, Procurement, Human Resources and Finance to align with the new business strategy and plans.

Implementation of VAT/TAX regulations recently issued by the government.

IT Security Enhancement

- Upgrade of network and security components to enhance the performance, availability and hardening the perimeter level security.
- Implemented Anti-Virus and Anti-Spam filtering solutions to protect from potentially dangerous email

- communications that may interrupt normal business operations.
- Web filtering tools implemented to ensure security of communication and network infrastructure and reduce the security risks such as virus infection, spamming, and hacking.
- Internet services are regulated using content filtering and monitoring tools to help regulate the use of internet, download of content, and determine misuse of Internet and enforce accountability of users.
- Implemented security policies for securing the users systems from internal and external threats.
- Established Secure connectivity with international offices starting with Dubai

Call Center

- Established Call Center at Head Office, to handle the inbound and outbound calls from customers.
- Implemented the IBM Watson email & SMS campaign automation marketing Tool and Live chat functionality through the Website.

Internal control procedures

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

21.2 Results of the effectiveness of the company's internal controls in the annual audit

1. The functions of the internal audit department include assessing the adequacy and effectiveness of the internal control system design, risk management, and corporate governance while focusing on the risks that could affect the company's business using a risk-based audit methodology. The management is committed to applying the International Standards of Internal Auditing.

2. The Internal Audit Department works objectively and independently, where it is functionally reporting to the Audit Committee and is administratively reporting to the Managing Director. The Internal Audit Department has the appropriate authority to obtain information, documents and held meetings with the staff.

3. During 2017, the company underwent periodic reviews according to an annual time plan. The Internal Audit Department carried out the planned audits for 2017, in addition to the management's involvement in the implementation of some special assignments.

4. Scope of work

The scope of internal audit work in 2017 included an examination of the adequacy and effectiveness of the company's internal control system to verify whether the company's internal policies provided reasonable assurance to achieve the company's objectives.

- Audit and periodic review of the company departments that work in the company over appropriate periods
- Inform the managers of the various examined departments of the results of the internal audit review

conducted to verify that necessary procedures have been taken

- Evaluate the plans and actions provided by the managers of the various relevant departments to address the comments and recommendations contained in the audit report.

In the case that no sufficient actions are taken, the issue may be discussed with the managers to ensure the efficiency and adequacy of the measures taken.

5. The results of the annual audit of the effectiveness of the internal control system procedures concluded that:

A. The financial and accounting systems and all that is related to the preparation of financial reports are safe and sound.

B. The regulatory systems are functioning effectively, and a general vision of risks has been developed as well as the way of addressing them.

C. The necessary procedures for all comments and recommendations made by the Internal Audit Department to the Audit Committee have been taken about the corrective or repair measures.

21.3 Comments of the External Auditor's Report to the Annual Financial Statements 2017

Note No. (28) of the attached consolidated financial statements of the company, which refers to the reclassification of the comparative figures presented for the year ended 31 December 2016, according to the International Financial Reporting Standards adopted in Saudi Arabia. Such consolidated financial statements are not the first annual financial statements to apply IFRS.

The Company has prepared the consolidated financial statements by International Financial Reporting Standards (IFRS) for the year ended 31 December 2008 and for all subsequent years, including the year ended on 31 December 2016, as the company is committed to meet the requirements of international financial markets and other administrative requirements.

The company has prepared its financial statements for those years in accordance with International Financial Reporting Standards separately and independently in parallel line with, and without prejudice to, the Company's consolidated financial statements issued by generally accepted accounting principles in the Kingdom of Saudi Arabia. As a result, the financial information has been restated in the attached consolidated financial statements, and our opinion has not been adjusted accordingly.

22 Investor relations

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

During 2017, 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.

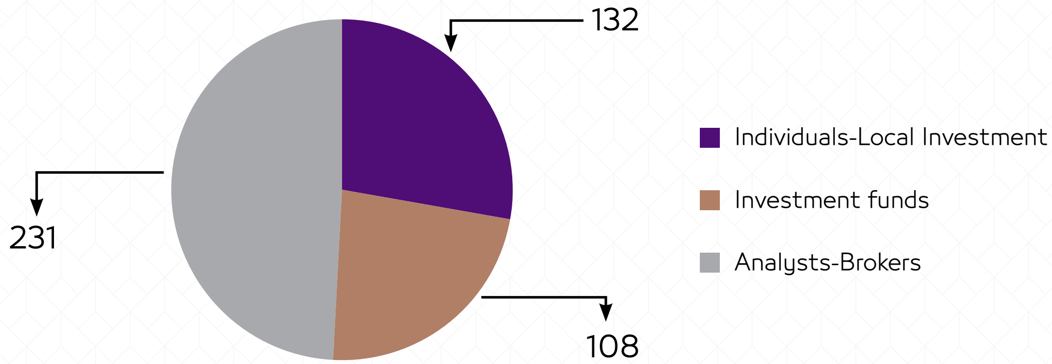
To enhance the effectiveness of communication with investors, analysts and the financial community, and in order to disseminate accurate information about the Company's operations, the company holds periodic meetings with investors and other stakeholders including equity shareholders, Sukuk-holders and 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.

Investor relations department take investors comments peroudlicy and share them with a detailed report with the senior management. 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 5th extraordinary general assembly meeting held on 1 May 2017.

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 2017



23 Human resources

23.1 Human capital

The company's management focus is to attract, acquire and retain competent employees to face current and future challenges and to invest in human capital by providing further training and skills development. The total headcount for the company at 31 December 2017 is 429 employees.

23.2 Senior management biographies:

Ziad El Chaar - Chief Executive Officer

Mr. Ziad El Chaar joined Dar Al Arkan early 2017. He is a graduate of the American University, in Beirut, with a major in Biology and received a Master of Business Administration in 1998 from the same university. Mr. Ziad has over 24 years of experience in real estate development and operation sectors. Before joining Dar Al Arkan, Mr. Ziad held key corporate positions in the field of real estate development including Executive Director and Managing Director of "DAMAC Properties" in the United Arab Emirates, and Chief Executive Officer of "Fattal Holding Group."

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 Jyvaskyla in Finland as well as a Bachelor's Degree Civil Engineering, construction management section. He Specializes in Corporate Finance management, M&A and is a recognized expert in the Sukuk markets.

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, Administration, Procurement and contracts, Legal Affairs, and IT departments. Mr. Bader holds an MBA from Cambridge International - UK. Mr. Badr has over 18 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 Manager of Saudi Building Materials Company Ltd (SBM) and the General Manager of Support Services across KSA at the Saudi Post - Government sector. He also occupied senior positions in Arabian Cement, Riyadh Cement and Saudi White Cement companies.

Joseph El Kourani - Sales

Mr. Joseph El Kourani joined Dar Al Arkan in July 2017 as Senior General Manager Sales. Joseph holds Business Degree from the University of Balamand in Lebanon. He has more than 20 years of experience in sales and building distribution channels in various Industries in 12 different countries. Prior to joining Dar Al Arkan, he served for 14 years as Sales Director- GCC with MetLife, followed by six years as Vice President Sales at "Damac Properties."

Assaad Najem - International Development

Mr. Assaad Najem joined Dar Al Arkan in 2017 as Director of Operations- International Development. Mr. Najem holds a degree in Management and Finance from Pigier Business School- France with over 10 years of experience in the real estate industry. Prior to joining Dar Al Arkan, Mr. Najem held key corporate positions in major real estate development companies including the Head of Compliance and Director of Corporate Affairs at Damac Properties and Director of Finance at Tatweer Dubai.

Ibrahim Almuhanna – Investor Relations

Mr. Ibrahim Almuhanna is the Investor Relations Director of Dar Al Arkan. He holds a Master's degree in Financial Economics from California State Polytechnic University, USA. Mr.Almuhanna has more than 7 years of experience in corporate finance, investment banking, corporate governance and investor relations possessing a proven track record successfully advising institutions on regulatory requirements and capital market transactions.

24 Quality, environment, health & safety (QEHS)

The QEHS Department is centered on adopting International Standards to improve the quality of real estate products & services and enhance the stakeholders' satisfaction. Besides, Dar Al Arkan is maintaining its compliance with applicable requirements 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 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

24.1 Quality assurance department achievements in 2017

- The realignment of policies and procedures to align with the recent changes in the organizational structure.
- Published all approved procedures and related forms to the company intranet for efficient and reliable access by all employees.
- Successfully obtained ISO 9001: 2015 Certificate and completed the certification audit for 2017.
- Developed additional set of bi-language procedures to support the diverse workforce within the company.
- Effective implementation of the corrective and preventive actions.

25 Board undertakings

In accordance with Item 24 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

Total amount of SAR 60,000 was paid to the Labor Office of which, as a result Saudization of some jobs amounting to SR 20,000 which was processed.

The company filed an objection to the unjustified observation that the sales department had not been completed.

27 Preparation 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 2017, 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.

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

Further, the company successfully prepared and published its interim condensed consolidated financial reports for the three quarters ended 31 March 2017, 30 June 2017 and 30 September 2017 respectively and its annual consolidated financial reports for the year ended 31 December 2017 as per the International Financial Reporting Standards

28 Statement of regulatory payments due

Item	2017 (Thousands)	2016 (Thousands)
Payables	173,352	173,457
Accrued expenses	89,730	62,286
Indemnity	21,961	25,682
Dividend payable	35,350	35,358
Others	46,180	65,257
Total	**366,573**	**362,040**

*The value of regulatory payments referred to represents the single value of Dar Al Arkan and the subsidiaries.

29 Branding, Marketing activities during 2017

Launch of the new website:

Dar Al Arkan has launched its new website, (www.daralarkan.com), as part of its current strategic direction to boost revenues from sales of its current and future projects in and outside the Kingdom. The new website features the most important information about the company, all the details of its current projects with video clips and various images, the latest offers of various real estate products and e-sales center, as well as all information of interest to investors

Launching the first electronic sales center for a real estate company in the Kingdom:

Dar Al Arkan launched the e-Sales Center on its website as the first website launched by a real estate development company in the Kingdom that allows the purchase of real estate properties by offering a wide choice of real estate products to customers and executing the process of booking the unit easily to purchase after reviewing the details of the project in terms of Location, space, building details, payment plan and online booking and payment by credit card.

Launching the company's social media:

In order to enhance communication with its customers and enhance its sales, Dar Al Arkan has launched its official accounts of various social media as an additional means of communication with its various clients. The aim is to keep them abreast of the company's latest real estate projects and special offers on villas, In addition to the various news and developments related to the company.

Organizing more than 50 marketing and sales events inside and outside the Kingdom attracted substantial number of customers:

The company has organized more than 50 marketing activities inside and outside the Kingdom to promote its various real estate products from villas and apartments and enhance its sales. These activities have been very successful in attracting many customers interested in the company's products

30 Events and sponsorships during 2017

30.1 Dar Al Arkan holds an open day for recruitment in cooperation with TAQAT

Dar Al Arkan Real Estate Development Company held an open recruitment day at the Marriott Hotel in Riyadh on Tuesday April 11, 2017 in cooperation with the recruitment program of the Human Resources Development Fund (HADAF).

Through its launch of the recruitment campaign, Dar Al Arkan aims to strengthen its existing team by attracting talented and promising young people with the spirit of ambition and creativity to form a distinctive addition to the company.

«Dar Al Arkan»
Increase the sales team to enhance the company's sales

DAR AL ARKAN
دار الأركان

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30.2 Ramadan annual Dar Al Arkan employees iftar gathering for 2017

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.

30.3 Restatex - Dar Al Arkan, the diamond Sponsor of Riyadh real estate and urban development exhibition 2017

Dar Al Arkan participated in Riyadh Real Estate and Urban Development Exhibition (Restatex) 2017 held from 17 to 19 Rajab 1438H corresponding to 24 to 26 April 2017 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.

31 Awards in 2017

31.1 The Largest residential project in Saudi Arbia (Shams Ar Riyadh) - b2017 by "Restatex".

Dar Al Arkan has been awarded the "Largest Housing Project for 2017 for the Shams Al Riyadh Project from "Restatex", Riyadh Real Estate, Housing and Urban Development Exhibition. This project is the result of the development of the project, which offers excellent residential alternatives, attractive environment and excellent services for the residents and entrepreneurs of the project as well as the integration of various services and facilities.

31.2 The "best corporate governance company of the Year –Saudi Arabia, 2017" by "The European"

Dar Al Arkan Real Estate Development Company has won the award of the "Best Corporate Governance in Saudi Arbia 2017" 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

«Dar Al Arkan»
the diamond Sponsor of Riyadh real and
estate urban development exhibition 2017

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AL ARKAN
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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.

31.3 The " First real estate company of the year - Saudi Arabia, 2017" 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 2017' for the third 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.

31.4 Top Real Estate Companies in the Arab World 2017 by "Forbes Middle East"

Dar Al Arkan has been among the top 10 real estate companies in the Forbes Middle East list of the most powerful real estate companies in the Arab world. Forbes Middle East ranked the list of top real estate companies listed on information from the annual reports of related companies as well as stock market data. And based on market value standards, assets, profits and revenues.

31.5 "The Most valuable 20 brands" & "The Most effective brands" in Saudi Arabia 2017 by "BrandZ"

Dar Al Arkan occupies an advanced position on my list of the 20 most valuable brands and the most influential brands in Saudi Arabia for 2017 in the report "BrandZ" for the best brands in Saudi Arabia, which classified Dar Al Arkan of the most successful real estate sector in Saudi Arabia and proved effective in To create contact with consumers by adopting the slogan "Building for Life" and its reputation for the quality of its designs and the strength of managing its projects. It also showed that the strong emergence of the real estate sector in the list shows the importance of this sector and its growing role in the local economy.

2017

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CONSOLIDATED FINANCIAL STATEMENTS AND THE REPORT OF THE INDEPENDENT AUDITORS REPORT

DAR
AL ARKAN
دار الأركان

2017 ANNUAL REPORT

Consolidated Financial Statements

CPAAI

محمد عبدالله الهيج
محاسبون ومراجعون قانونيون
ترخيص رقم : ١١٩
عضو مستقل في سي بي أيه العالمية

الخراشي وشركاه
محاسبون ومراجعون قانونيون

1 February 2018

Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of

Dar Al Arkan Real Estate Development Company

(A Saudi Joint Stock Company)

Opinion

We have audited the accompanying consolidated statements of Dar Al Arkan Real Estate Development Company (A Saudi joint stock company) (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the statement of consolidated financial position as at December 31, 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants (SOCPA) .

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of a Matter - comparative figures

We would like to draw attention to note 28 to the consolidated financial statements of the Group, which refers to reclassification to comparative figures presented as at and for the year ended 31 December 2016, in accordance with International Financial Reporting Standards endorsed in the Kingdom of Saudi Arabia. The Group is not the first time adopter of IFRS. The Group has been consistently prepared and issued its consolidated financial statements in compliance with International Financial Reporting Standards (IFRS) from the year ended 31 December 2008 and for all periods up to and including the year ended 31 December 2016, for complying with international capital markets covenants and management requirements.

The IFRS reports were issued separately and independently in parallel without affecting its statutory consolidated financial statement prepared and issued in accordance with generally accepted accounting principle in the Kingdom of Saudi Arabia (SOCPA).

As a result, comparative information in the accompanying consolidated financial statements has been reclassified. Our opinion has not been amended accordingly.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each key audit matter, a description of how our audit addressed the matter is set out below:

The Key Audit Matters

Evaluation of development properties

The Group maintains development properties consisting primarily of under construction and development projects for the purpose of development and sale in its ordinary course of business. The carrying amount of real estate properties is SAR 14.874 billion (31 December 2016: SR 17.038 billion).

All development properties (held for development or sale) are initially recognized at acquisition cost and subsequently re-measured at the lower of cost and net realizable value, whereas their fair value is estimated for the purpose of disclosure only in the notes to the consolidated financial statements.

Management has determined the net realizable value of the development properties based on internal valuation, taking into account market data adjusted in comparison to the characteristics of the concerned properties, including the inputs used by the management during its assessment of the expected cash flows and the market current rental value in which both are exposed to the changes in the prevailing market forces and the characteristics of each property in the portfolio.

In addition, the Group has used, where necessary, to measure the fair value of development property on the basis of a valuation by an independent valuer who holds a recognised and relevant professional qualification.

During the period, the Group's management conducted an internal review and evaluation of the development properties resulting in an increase in the fair value by 35% (31 December 2016: 46%) through the development property portfolio as described in note 6. Management believes that the increase in carrying amount is a conservative indication of the fair value of the Group's development properties.

The valuation of the cost of properties and net realizable value is a complex process where the change in the Group's estimate of the selling price and the cost of construction would materially affect the carrying amount of the properties held for development and sale in the Group's consolidated financial statements.

Evaluation of development properties

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In addition, the Group has used, where necessary, to measure the fair value of development property on the basis of a valuation by an independent valuer who holds a recognised and relevant professional qualification.

During the period, the Group's management conducted an internal review and evaluation of the development properties resulting in an increase in the fair value by 35% (31 December 2016: 46%) through the development property portfolio as described in note 6. Management believes that the increase in carrying amount is a conservative indication of the fair value of the Group's development properties.

The valuation of the cost of properties and net realizable value is a complex process where the change in the Group's estimate of the selling price and the cost of construction would materially affect the carrying amount of the properties held for development and sale in the Group's consolidated financial statements.

Revenue recognition from sale of properties

The Group has early adopted IFRS 15 Revenue from Contracts with customers as the Group believes that this represents a better performance of the Group's real estate activities.

Revenue recognition from the sale of properties including residential units, commercial units and parcels of land, includes significant inherent risks as a result of judgments and estimates used. The audit provisions on the percentage of completion of the projects, including the costs incurred to date against the total expected value of the project and the stage of completion of the project in the absence of the sale of all the units under development are all matters that require great attention during the audit, including:

- The ability of the Group to make payments on work performed in accordance with the terms of its contracts and therefore meet the requirements of IFRS 15 regarding revenue recognition over time;
- Total expected cost of completion of the real estate project covering the unit sold;
- Probability of collection of remaining sales;
- The value of infrastructure costs to be incurred to complete the project.

How the matter was addressed in our audit

- We assessed the appropriateness of evaluation methods and assumptions, critical judgment areas and estimates used by management in the internal evaluation process;
- We have engaged in discussions with management and have evaluated the relevant assumptions used, based on market data where possible:
- We have tested the appropriateness of the key inputs used in the valuation of properties held for development and sale;
- For commercial and residential properties held for sale, we have compared the main assumptions used by management with external data in the area of business and comparable real estate transactions, particularly selling prices;

- We have assessed the reason for changes in key inputs, estimates and assumptions for the prior period;
- We assessed the effectiveness and efficiency of management staff experience in the evaluation process;
- Based on the results of our valuation, we have estimated the adequacy of the disclosures in the Group's consolidated financial statements.
- We have evaluated the significant assumptions used by the management in its assessment that include expected rental values, expected returns, occupancy rate and discount rate. We have supported these assumptions with rental agreements, published indicators and comparative market data available;
- We evaluated key inputs and assumptions in the evaluation model and analyzed their sensitivity to key elements;
- We also assessed the reason for changes in key inputs, assessments and assumptions for the prior period;
- We assessed the effectiveness and efficiency of the experience of management staff in the evaluation process;
- For the independent evaluator, we assessed the efficiency, independence and integrity of the external evaluation firm; and
- Based on the results of our valuation, we have estimated the adequacy of the disclosures in the Group's consolidated financial statements.
- We have audited the contracts for the sale of real estate units including residential units, commercial units and land plots to renew the Group's performance obligations under these contracts and to assess whether these obligations are met over time or at any given time on the basis of the standard established by IFRS 15 . Our focus under these contracts is to determine whether the Group has a binding right in payments for performance performed to date to be satisfied with the revenue earned to date under these contracts;
- We have examined the internal control procedures on the Group's budget preparation process to determine its accuracy, with particular emphasis on the total projected costs of completion of the real estate projects involving the units sold;
- We conducted a detailed tests based on a sample bases to determine whether the costs incurred on the projects were recorded and capitalized. We also assessed the distribution of these costs on the sold and unsold units based on the respective

area of the real estate development projects by reviewing the summary of the cost allocation within the project prepared by the management.

Other Information

Other information consists of other information from the information included in the Company's annual report for the year ended 31 December 2017, other than the consolidated financial statements and the auditors' report thereon. We expect to obtain the Annual Report for the year ended 2017 after the date of this auditor's report. The Group's management is responsible for the other information mentioned in its annual report.

Our opinion on the consolidated financial statements does not cover other information and we do not and will not express any form of assurance conclusion thereon.

In our audit of the consolidated financial statements, it is our responsibility to read the information described above. In doing so, we consider whether the other information is not materially consistent with the consolidated financial statements or knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, Company's By-laws and companies regulation and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's consolidated financial reporting process

Auditors' Responsibilities for the Audit of the Consolidated financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated financial statements of Dar Al Arkan Real Estate Development Company (A Saudi joint stock company) (the "Company") and its subsidiaries (collectively referred to as the "Group"), taken as a whole, comply with the requirements of the Regulations for Companies and Company's By-Laws with respect to the preparation and presentation of consolidated financial statements.

For Al-Kharashi Co.

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

الخراشي وشركاه
محاسبون ومراجعون قانونيون
ترخيص ٥٣٦
Lic: 536
Certified Accountants & Auditors
Al-Kharashi Co.

Mohammed A. Al-Haij

Certified Public Accountant
License No. (119)

محاسب قانوني
ترخيص رقم ١١٩
CERTIFIED PUBLIC ACCOUNTANT
LIC. NO .. 119
MOHD. A. AL-HAIJ

DAR AL-ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

	Notes	2017	2016
		SR 000	SR 000
ASSETS			
Non-current assets			
Investment properties, net	5	**3,290,010**	3,424,778
Long-term development properties	6	**14,751,565**	16,721,061
Property and equipment, net	7&22a	**70,925**	66,131
Investments in associates and joint ventures	8	**811,189**	790,585
Other assets	9	**1,950**	828
Total non-current assets		**18,925,639**	21,003,383
Current assets			
Short-term development properties	6	**122,675**	317,325
Trade receivables and others	10	**4,033,325**	2,582,978
Cash and cash equivalents	11	**3,159,666**	582,088
Total current assets		**7,315,666**	3,482,391
TOTAL ASSETS		**26,241,305**	24,485,774
LIABILITIES AND SHAREHOLDERS' EQUITY			
Non-current liabilities			
Borrowing -long-term maturity portion	12	**4,720,334**	4,890,375

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

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Chief Financia Officer

Managing Director

DAR AL-ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

	Notes	2017	2016
		SR 000	SR 000
End of service indemnities	13	**21,961**	25,682
Total non-current liabilities		**4,742,295**	4,916,057
Current liabilities			
Borrowings-short-term maturity portion	12	**1,678,648**	324,995
Trade payables and others	14	**537,142**	529,721
Zakat provision	15c	**549,670**	537,494
Total current liabilities		**2,765,460**	1,392,210
Total liabilities		**7,507,755**	6,308,267
Shareholders' Equity			
Share capital	16	**10,800,000**	10,800,000
Statutory reserve		**1,058,720**	1,003,383
Retained earnings		**6,874,830**	6,374,124
Total shareholders' equity		**18,733,550**	18,177,507
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**26,241,305**	24,485,774

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

Chief Financia Officer

Managing Director

DAR AL-ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 SR 000	2016 SR 000
Revenue	17	**4,734,682**	1,870,229
Cost of revenue	18	**(3,620,672)**	(1,078,286)
GROSS PROFIT		**1,114,010**	791,943
Operating expenses:			
General and administrative expenses	19	**(162,002)**	(160,028)
OPERATING PROFIT		**952,008**	631,915
Finance costs	20	**(441,523)**	(385,984)
Other income, net		**36,722**	(32)
Share of net profits from associates and joint ventures	8 a	**20,604**	12,878
PROFIT BEFORE ZAKAT		**567,811**	258,777
Zakat provisions	15b	**(14,443)**	(7,943)
NET PROFIT FOR THE YAER		**553,368**	250,834
Other comprehensive income:			
Re-measurement gain on end of service indemnities		**2,675**	-
Total comprehensive income for the year		**556,043**	250,834
Total comprehensive income attributable to:			
Dar Al Arkan shareholders		**556,043**	250,834
Earnings per share (in Saudi Riyal)			
Basic and diluted	21	**0.51**	0.23

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CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital	Statutory reserve	Retained earnings	Total equity
	SR 000	SR 000	SR 000	SR 000
2017				
Balance as at 1 January 2017	10,800,000	1,003,383	6,374,124	18,177,507
Net profit for the year	-	-	553,368	553,368
Other comprehensive income	-	-	2,675	2,675
Total comprehensive income for the year	-	-	556,043	556,043
Transfer to statutory re-serve	**-**	**55,337**	**(55,337)**	**-**
Balance as at 31 December 2017	**10,800,000**	**1,058,720**	**6,874,830**	**18,733,550**
2016				
Balance as at 1 January 2016	10,800,000	978,300	6,148,373	17,926,673
Net profit for the year	-	-	250,834	250,834
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	250,834	250,834
Transfer to statutory re-serve	-	25,083	(25,083)	-
Balance as at 31 December 2016	10,800,000	1,003,383	6,374,124	18,177,507

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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 2017

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 SR 000	2016 SR 000
OPERATING ACTIVITIES		
Profit before Zakat	**567,811**	258,777
Adjustment for:		
Depreciation	**76,775**	77,500
End of service indemnities	**5,129**	6,317
Provision for doubtful debts	**-**	1,000
Finance costs	**441,523**	385,984
Share of net profit from associates and joint ventures	**(20,604)**	(12,878)
Operating cash flows before movements in working capital	**1,071,260**	716,700
Development properties, net	**2,227,035**	(3,960)
Trade receivables and others	**(1,450,347)**	339,518
Other assets	**(1,122)**	(828)
Trade payables and others	**7,421**	20,443
Cash from operations	**1,853,621**	1,071,873
Finance costs paid	**(408,673)**	(353,536)
Zakat paid	**(2,267)**	(26,206)
End-of-service indemnities paid	**(6,175)**	(1,608)
NET CASH FROM OPERATING ACTIVITIES	**1,436,506**	690,523
INVESTING ACTIVITIES		
Investment properties	**-**	3,382
Investments in associates	**-**	(1,500)
Disposal of property and equipment	**440**	-
Purchase of property and equipment	**(10,130)**	(1,738)
NET CASH USED IN / FROM INVESTING ACTIVITIES	**(9,690)**	144
FINANCING ACTIVITIES		
Long term borrowings	**1,150,762**	(1,109,640)
NET CASH FROM / USED IN FINANCING ACTIVITIES	**1,150,762**	(1,109,640)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**2,577,578**	(418,973)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	**582,088**	1,001,061
CASH AND CASH EQUIVALENTS, END OF THE YEAR	**3,159,666**	582,088
Non-cash transaction related to transfer of investment property (Note 5)		
Transfer of investment properties to development properties	**62,889**	-

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REPORT OF THE AUDITORS

DAR AL ARKAN

دار الأركان

2017 ANNUAL REPORT

1 GENERAL INFORMATION

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY (the "Company"), is a Saudi Joint Stock Company established under the Company Laws & Regulations of The Kingdom of Saudi Arabia. The Company is registered in Riyadh under Commercial Registration No. 1010160195 dated 16/04/1421H, corresponding to 18/07/2000 G. The Company is domiciled in The Kingdom of Saudi Arabia (K.S.A.) and its registered office address is P.O. Box No: 105633, Riyadh-11656, K.S.A.

The equity shares of the Company are listed with the security market of The Kingdom of Saudi Arabia.

The Company and its Subsidiaries are collectively called "the Group" and is predominantly engaged in the business of development, sale and leasing of real estate projects and associated activities. The Company manages its activities through subsidiaries established for each line of business. These Subsidiaries operate under their own commercial registration and are summarised below:

Dar Al Arkan PROPERTIES (REAL ESTATE) COMPANY – is a limited liability company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No. 1010254063, dated 25/7/1429 H (corresponding to 28/7/2008 G). 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 28/3/1429 H (corresponding to 5/4/2008 G). 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 28/3/1429 H (corresponding to 5/4/2008 G). It operates in purchase and acquisition, 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 16/9/1429 H (corresponding to 16/9/2008 G). 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 11/10/1430 H (corresponding to 01/10/2009 G). 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 30/10/1430 H (corresponding to 19/10/2009 G). 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 30/10/1430 H (corresponding to 19/10/2009 G). It operates in Real Estate investments and development.

Dar Al Arkan PROPERTIES COMPANY – is a limited liability company, a wholly owned subsidiary, registered in Riyadh under the Commercial Registration No. 1010521509, 22/6/1438 H (corresponding to 21/3/2017 G). It operates in Real Estate investments and developments, leasing and property management.

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 International Financial Reporting Standards ("IFRS") endorsed by SOCPA and adopted in KSA, consistent with the Group's accounting policies.

These consolidated financial statements are presented in Saudi Riyals (SR), which is the Group's functional currency.

2.2 ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

Standards and interpretations effective in the current year

In the current year, the Group has adopted all new Interpretations issued by the International Financial Reporting Interpretation Committee ("IFRIC") that are mandatory for adoption in the annual periods beginning on or after 1 January 2017.

IFRS 1	Annual improvements	▪ Deletion of short-term exemptions for first-time adopters
IFRS 2	Amendment	▪ Classification and Measurement of Share-based Payment Transactions
IFRS 10	Amendments	▪ Interim condensed consolidated financial statements - Amended by Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
IAS 7	Amendments	▪ Statement of Cash Flows – disclosure initiative
IAS 12	Amendments	▪ Income taxes - Recognition of Deferred Tax Assets for Unrealised Losses
IFRS 3 & 11	Annual improvements	▪ When an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business.
IFRS 4 and 9	Amendment	▪ Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'
IFRS 9	Amendment	▪ amendments to introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets.
IFRS 15	New standard- Effective date change	▪ Revenue from Contracts with Customers -defers effective date
IAS 23	Amendment	▪ borrowing costs eligible for capitalisation
IAS 28	Annual improvements	▪ Investments in Associates and Joint Ventures- Clarification on election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity
IAS 28	Amendment	▪ regarding long-term interests in associates and joint ventures
IAS 40	Amendments	▪ to clarify transfers or property to, or from, investment property

Generally the adoption of these interpretations has not led to any changes in the Group's accounting policies and disclosures provided in the consolidated financial statements.

Standards and interpretations in issue but not yet adopted

The following standards, amendments and interpretations were in issue at the date of authorisation of these financial statements, but not yet effective, and therefore were not applied in these consolidated financial statements.

The impact of the adoption of these standards is currently being assessed; however the directors anticipate that the adoption of these standards, amendments and interpretations in future periods will not have a significant impact on the consolidated financial statements of the Group.

IFRS 9	Amendment	▪ Amendments regarding prepayment features with negative compensation and modifications of financial liabilities
IFRS 17	New standard	▪ Insurance Contract
IAS 12	Amendment	▪ clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.

2.3 ACCOUNTING CONVENTION

The consolidated financial statements have been prepared on the historical cost basis, as modified by the revaluation of certain financial instruments at fair value and investment in associates at equity method. The obligation of post-employment benefits are accounted for the present value of future obligation. The principal accounting policies are set out below.

2.4 BASIS OF CONSOLIDATION

The Group consolidates the financial statements of the Company and entities where the group has power over the investees, it is exposed, or has rights, to variable return from its involvements and has the ability to use its power to control and affect its return from the investees or subsidiaries. The consolidated financial statements of the Group consist of operations of the Company and entities controlled the Company or its Subsidiaries made up to 31 December 2017.

Subsidiaries

Subsidiaries are entities that are controlled by the Group. The Group controls an entity when, it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over that entity. Subsidiaries are fully consolidated from the effective date of acquisition or 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 as the fair value of the assets given, 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 in a business combination are initially measured at 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 fair values 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 fair value of the Group's share of identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair value of identifiable net assets acquired (i.e. discount on acquisition) is recognised directly in the consolidated statement of profit or loss and comprehensive 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 and joint venture

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.

A joint venture is a joint arrangement where the parties to the joint venture have rights to the net assets of the joint arrangement and have contractually agreed sharing of joint control over the relevant activities through which the parties to the arrangement can participate to the decision making of the relevant activities require unanimous consents and joint control.

Equity method

Under equity method of accounting, the investments in associates or a joint venture is initially recognised in the consolidated financial position at cost and adjusted by the post-acquisition changes in the Group's share of the profit or loss and other comprehensive income and the net assets of the associate or a joint venture, less any impairment in the value of individual investments. The results, assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting except when classified as held for sale. Losses of the associates or a joint venture in excess of the Group's interests in those associates or joint venture are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in associates or a joint venture is accounted under equity method of accounting from the date of acquisition. Any excess of cost of acquisition over the Group's share of the fair values of identifiable net assets of the associate or a joint venture at the date of acquisition is recognised 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 fair values of identifiable net assets of the associate or a joint venture at the date of acquisition (i.e. discount on acquisition) is recognised in the consolidated statement of profit or loss and comprehensive income.

When the investment in associates or a joint venture is classified as held for sale or ceases to be an associates or a joint venture, from that date, the group discontinue the use of equity accounting. When a partial sale of an associate or a joint venture which results in losing significant influence over that associate or a joint venture, the remaining investment is measured at fair value on the date of sale and recognised as a financial asset. The differences between the attributable shares of carrying amount for the retaining interest in that associate or a joint venture and its fair value is included in the determination of gain or loss of the disposal of the associates or a joint venture. In addition, the Group reclassifies the gains or losses from equity, previously recognised in the other comprehensive income to the statement of profit or loss and comprehensive income.

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

Investment in joint operation

A joint operation is an arrangement where Group entities have joint control of an arrangement and have legally binding rights to the assets and obligations for the liabilities of the arrangement. A Joint control is a legally agreed sharing of control of an arrangement and all the relevant activities of the arrangement require unanimous consent of the parties sharing control.

When the Group entity carry out its activities under joint operations, the Group recognises its interest under the joint operation as follows:

- The asset belongs to the Group, including its share of any assets acquired and held jointly;
- The Liabilities associated with the Group, including its share of any liabilities incurred jointly;
- Group's share of revenue arising from the joint operation;
- Group's expenses, including the share of expenses incurred jointly in the joint operations.

The Group accounts for the assets, liabilities, revenues and expenses associated with its interest in a joint operation in accordance with IFRSs applicable to the particular assets, liabilities, revenues and expenses. When the Group entity is a joint operator and the Group is involved with a sale or asset contribution to the joint operation, the profit and losses resulting from such transitions are recognised in the Groups consolidated financial statement only to the extent of other parties' share in the joint operation. When the Group entity is a joint operator and the Group is involved with a purchase transaction with the joint operation, the Group does not recognise the share of its gain or loss until such assets are resold to a third party.

2.5 PROPERTY AND EQUIPMENT

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

Cost includes all directly attributable expenses incurred in bringing the property and equipment to their present location, condition until the property and equipment is available for use. The management periodically review and reassess the estimated future useful life and residual value and accordingly may change or modify the depreciation rates.

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 rates:

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 consolidated profit or loss.

At each reporting date, 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 in consolidated profit or loss immediately.

2.6 INVESTMENT PROPERTIES

Investment properties principally comprise completed projects (including properties and developed land held for long term capital appreciation) and projects under development (including property projects under construction, land projects under development and land waiting for development). Investment properties are held to earn rentals and/or for capital appreciation or both, rather than for sale in the ordinary course of business or for use in production or administrative function. Projects under development include those properties in progress of development or waiting for development to commence. These properties are not used for generating sales revenues through normal business operations. The investment properties are initially recognised at cost and the cost of an acquisition is measured at fair value of the assets acquired / transferred. All developments costs (design, development and staff cost) that are directly attributable to the acquisition/ development of the properties are capitalized to derive the total cost.

An investment property is derecognised on sale or disposal when permanently withdrawn or transferred to development properties. Any gain or loss arising from derecognition of the property is recognised in consolidated profit or loss immediately.

Investment properties are 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 profit or loss for the period of the retirement/ disposal except those that relate to sale and leaseback arrangements.

2.7 DEVELOPMENT PROPERTIES

All development properties are initially measured at acquisition cost and subsequently measured and accounted for lower of cost and net realisable value. This principally consists of projects under progress and land parcels under development for sales in the ordinary course of business, rather than to be held for rental or capital appreciation. Cost comprises all directly attributable cost including 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. Impairment is tested comparing with net realisable value, which 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 development properties are held for longer period and will not be realised within 12 months. If there is a change in management intention and identify any development property for immediate sale then the same is split between long-term and short-term development properties representing non-current and current portion of development properties respectively.

At each reporting date management categorises development properties projects as long term or short term depending on its estimated completion date. If the completion date of a project is expected to be within a year from the date of the consolidated statement of financial position, the project is classified as short term development properties

2.8 IMPAIRMENT OF TANGIBLE ASSETS

At each reporting date, the Group reviews the carrying amounts of its tangible assets for any indication that those assets have suffered impairment losses. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. 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 fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. 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 profit or loss.

2.9 ISLAMIC BORROWING COSTS

Islamic borrowing 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 borrowing costs are recognised as finance costs in the consolidated profit or loss in the period in which they are incurred.

2.10 FINANCIAL INSTRUMENTS

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

Classification and measurement – financial assets

Classification and measurement of financial assets are based on the underlying business model and estimated cash flows. Any derivatives embedded in the contracts are not separated and is considered as a whole for classification. The financial assets are principally categorised as under;

- Measured at amortised cost
- Fair value through other comprehensive income(FVTOCI)
- Fair value through profit or loss (FVTPL)

Financial assets that are initially recognised at fair value are subsequently measured at amortised cost based on expected credit loss (ECL) described below:

- 12-month expected credit losses- expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date.
- Lifetime expected credit losses- expected credit losses that result from all possible default events over the life of the financial instrument.

A loss allowance for full lifetime expected credit losses is required for a financial instrument if the credit risk of that financial instrument has increased significantly since initial recognition, as well as to contract assets or trade receivables that do not constitute a financing transaction in accordance with IFRS 15.

Trade receivables

Trade receivables are classified as loans and receivables and are initially recognised at fair value. They are subsequently measured at their amortised cost using the effective interest rate method less any provision for impairment. 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. An allowance for impairment is recognised when the carrying value of the receivable exceeds the present value of the future cash flow discounted using the original effective commission rate. The carrying value of the receivable is reduced through the use of an allowance account and any impairment loss is recognised in the consolidated profit or loss.

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 original maturities of three months or less.

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 include Islamic Sukuk and Islamic Murabaha and are classified according to the substance of the respective contractual arrangement and are initially measured at their fair value, net of transaction costs. Financial liabilities are subsequently carried at their amortised cost, with commission cost being recognised on an effective yield basis in the consolidated statement of profit or loss over the term of the instrument.

Trade payables

Trade payables are initially recognised at fair value and subsequently at amortised cost using the effective interest rate method.

Islamic variable financial instruments

The Group designates certain hedging instruments, which include Islamic variable financial instruments in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as a cash flow hedges.

The Group initially recognises Islamic variable financial instruments as either a financial asset or a financial liability, at fair value, and subsequently re-measured to their fair value at the end of each reporting period. The accounting for changes in the fair value of an Islamic variable financial instrument depends on the intended use and the resulting designation of the Islamic variable financial instrument. The resulting gain or loss is recognised in the consolidated statement of profit or loss immediately, unless the Islamic variable financial instrument is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

For an Islamic variable financial instrument designated as a fair value hedge, the gain or loss is recognised in the consolidated statement of profit or loss in the period of change together with the offsetting loss or gain on the hedged item attributed to the risk being hedged. Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

2.11 REVENUE RECOGNITION

Revenue represents the sale of properties, revenue from contract with customers and rental activities.

Sale of Properties

Properties developed and sold on completion or as is are 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, which is assessed to be at the time of legal completion of the sale or unconditional exchange. Revenue is measured at the fair value of consideration received.

Contract with customer

Properties developed and sold under a construction contract or agreement where the objective and the outcome of such contracts can be estimated reliably, the revenue and cost of such developments are recognised in proportion to the performed/measured stages of completion against the total contractual obligations/miles stones including variation, claims and incentives at the end of each reporting period, except where the performed work are not a representative of the stage of completion.

Where the outcome of the contract cannot be estimated reliably, the contract revenue is recognised to the extent of cost incurred and probability recoverable against such contract. All the cost incurred is recognised as expenses in the period in which it is incurred.

When it is probable that the total contract cost will exceed total contract revenue, the estimated loss is recognised as expenses immediately

Leases

With respect to lease rental income, the Group recognises revenue on a straight line basis over the lease term.

2.12 ZAKAT

Zakat is calculated pursuant to Zakat Regulation in the Kingdom of Saudi Arabia and recognised in the respective subsidiaries or in the consolidated statement of profit or loss in each period. The provision is based on an estimate of Zakat that is adjusted in the financial period in which the final assessment of Zakat is issued by the General Authority of Zakat and Tax ("GAZT"). Any change in the estimate resulting from the final assessment is recognised in that period.

2.13 FOREIGN CURRENCIES

Transactions in currencies other than Saudi Riyals, the presentational and functional currency of each subsidiary within the Group, are recorded at the rates of exchange prevailing on the dates of the transactions. At the reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date Non-monetary assets and liabilities carried at fair value, that are denominated in foreign currencies, are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. The resulting exchange gains or losses are recognised in the consolidated statement of profit or loss and comprehensive income.

2.14 STATUTORY RESERVE

According to the article (129) of the Companies' Regulation (Amendment 2016), the Group is required to retain 10% of net income in the statutory reserve. The Group may stop the transfers when this reserve reaches 30% of the share capital. This reserve is not available for dividend distribution.

2.15 END OF SERVICE INDEMNITIES

The Group provides end of service benefits to its employees in accordance with the labour law provisions 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, based on the estimated ultimate payment.

Re-measurements, comprising of actuarial gains and losses, are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income, in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

2.16 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.

2.17 LEASING

Group as a lessor

Rentals receivable under operating leases are recognised to the consolidated profit or loss 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 is applied on "right- of-use assets" and "lease liability" respectively. Such depreciation and interest is charged to the consolidated profit or loss as depreciation and finance charges.

In case of existing, short term, small value and cancellable operating leases, the entity continues to charge the periodic lease payments to the consolidated profit or loss as an expense on straight-line basis over the term of the relevant lease.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience, internal controls, advice from external experts and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting judgments will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial periods are discussed below:

Revenue Recognition

The Group recognises revenue on sale of its properties when significant risks and rewards of ownership transfer to the buyer, which is assessed to be at the time of legal completion of the sale or unconditional exchange.

With respect to land properties/projects, the Group receives an initial non-refundable deposit upon signing the sale contract with the balance being paid on a deferred basis, which typically does not exceed three months. The Group recognises the full amount of the consideration at the time the sale contract is signed.

With respect to residential and commercial projects, The Group typically receives an initial deposit on the signature of the sales contract and the balance is collected over a period as per the terms of the contract. Revenue from the sale of these properties is only recognized when the sales and purchase agreement is signed and the completed property is delivered to the purchaser.

With respect to residential and commercial projects sold under a construction contract or agreement and the objective and the outcome of such contracts can be estimated reliably, the revenue and cost of such developments are recognised as per under IFRS 15 in proportion to the performed/measured stages of completion against the total contractual obligations/milestones including variation, claims and incentives at the end of each reporting period, except where the performed work are not a representative of the stage of completion.

With respect to lease rental income, the Group recognises revenue on a straight line basis over the lease term in accordance with IFRS 16.

Recognition of cost of sales

The Group has developments which typically contain a number of individual projects within each development. In order to determine cost of sales related to properties or units sold during the year the management estimates and average the costs of the entire developments, including infrastructure costs and overall construction and other directly attributable costs to arrive the total estimated cost of the project. These estimated costs are allocated to each project within the development and each unit within a project. These estimates are reviewed regularly on a profit per project basis and revised as necessary. Any significant change in these estimates may result in additional costs being recorded in future periods related to revenue recognised in a prior period.

Measurement of contract assets and trade receivables

The group management makes significant assumptions on the estimation of expected credit loss (ECL) in connection with contract assets and/or trade receivables which is assessed based on the terms of contract and evaluation is made where there is objective evidence, including customers with financial difficulties or in default on payments, possibilities of bankruptcy of the customer that amounts will not be recovered in accordance with original terms of the agreement. Based on such periodic assessment the Company recognise for full lifetime expected losses for all contract assets and/or all trade receivables with or without significant financing transaction and for lease receivables. For all other financial instruments, expected credit losses are measured at an amount equal to the 12-month expected credit losses in accordance with IFRS 9.

Classification of properties

The Group's properties are classified as either investment properties or development properties. Management has made various judgments to determine whether a property qualifies as an investment property which is held to earn rentals and/or for capital appreciation or both. These are not used for generating sales revenues through normal business operations. A development property comprises completed properties, developed land, property projects under construction, land projects under development and land awaiting development predominantly identified for sale in the ordinary course of business. In making its judgment, management considers its intended use of property. When management assess that certain investment properties will be disposed as part of normal business operation, their carrying cost will be transferred to development properties for final completion of development and transfer.

Subsequent transfer of Investment Properties

Investment properties are the interests in land and/or buildings that are held for their investment potential and not for sale in the ordinary course of business. Management assesses the intended use of its real estate properties on continuous basis and summarises the portfolio at every reporting period. When the periodic management assessment identifies any change in the use of a property previously classified as investment properties, their carrying cost is transferred to development properties for further development and final transfer under ordinary course of business. While re-assessing the intended use, management considers the holding period, possibility of further appreciations, related economic activities around such properties and need for further development to make the property ready for sale.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation or commencement of an operating lease. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with the intent to sale.

Carrying value of development properties

The Group's principal activity is currently the development and sale of land, residential and commercial property. Due to the nature of this activity, much of the development is speculative in nature. Accordingly, the consolidated statement of financial position at 31December 2017 reflects current assets that are not covered by forward sales contracts.

The Group assesses the net realisable value of its development properties at each reporting date. This assessment is based on a profit per project basis and compares the carrying and estimated future costs to complete with the expected selling price per unit based on historical activities and available comparables in the surrounding location. As a result of this process, there have been no instances where the estimated net realisable value of the site/unit was less than its current carrying value within the consolidated statement of financial position. A change of these estimates in the future could have an impact on the valuation of the development properties.

Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

While estimating the fair value of an asset or a liability the group take into consideration of the assumptions that market participants would use when pricing the asset or liability for their best economic interest.

Fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the best use or by selling it to another market participant for the best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

For the financial reporting purpose, The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities;

- Level 1: Quoted prices in active markets for the same instrument (i.e., without modification or additions);
- Level 2: Quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data and
- Level 3: Valuation techniques for which any significant input is not based on observable market data.

For the determination of the fair value of the properties, valuations are arrived internally by using group management's subjective expertise and location knowledge together with comparable transactions recorded in the surrounding area for non-related arms lengths transactions. The group also engage third party independent real estate valuation experts using recognised valuation methods to value the properties wherever it is possible and practical. The fair value arrived using this methodologies disclosed as a percentage (%) of net-margin over the carrying cost.

The group also estimates the fair value of its investment properties and development properties by using the Internal Rate of Return and Income Capitalisation Method.

Under IRR method the group estimates future cash flows from assets considering future revenue streams, development costs and all directly attributable cost including financing cost, market risk and targeted profit. These assumptions and estimates are reviewed periodically based on the market conditions existing at the end of every reporting period, to arrive a targeted IRR.

Under capitalisation method the income receivable under existing lease agreements are extrapolated to arrive at projected future rental revenues, which is capitalised at appropriate rates reflecting the investment market conditions at the valuation dates.

The groups future rental stream estimations are based on certain assumptions and are subject to market volatility, uncertainty and can materially differ from the actual results. The absence of well-developed and active market condition brings greater degree of uncertainty and volatility to estimated fair valuation of investment properties than which exists in a more active market.

Below are the key assumptions the group used to estimate fair value of its investments assets:

	2017 Range	2016 Range
Profit margin on carrying cost –development properties	**33% - 37%**	46%
Targeted IRR –development properties	**7-10%**	8-12%
Estimated Capitalisation of yields- investment properties	**5-7%**	5-7%

4 REPORTING SEGMENTS

Management has organised the Group into three segments for the purpose of reporting to the chief operating decision maker. Management develops its strategic planning and business model around these segments that consist of:

- Development Properties – the development of basic infrastructure on undeveloped land ("Land Projects") and the development of residential and commercial projects and the sale of units on such projects ("Residential and Commercial Projects").
- Investments – strategic investment in companies that management believes are complementary to the Group's real estate development operations.
- Asset Management – leasing and management of properties that the Group has retained as rental properties including commercial and residential units on its Master-Planned Communities for generating recurring revenues.

The Group does not allocate share of profits of associates, general administration, selling and marketing costs including directors' salaries, finance costs, other income and Zakat expense to its segments. Substantially all of segment operating activity (including revenue and costs) for the year ended 31 December 2017 and the year ended 31 December 2016 was generated from the developed properties segment. The Group provided breakdown of revenue, profit, assets and liabilities by operation segment. The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 2.

The Group operates exclusively in Saudi Arabia and all its revenues are derived from its portfolio of properties which the Group manages.

The segment wise revenue, gross margin, operating expenses, profit, assets and liabilities from sales of development properties (land, residential and commercial projects) and leasing of properties are presented below:

	Notes	For the year ended 31 December 2017		
		Sale of Developed Properties	Leasing of Properties	Group Total (Unaudited)
SEGMENT WISE PROFIT & LOSS		SR 000	SR 000	SR 000
Revenue		4,584,819	149,863	4,734,682
Cost of revenue		(3,548,793)	(71,879)	(3,620,672)
GROSS PROFIT		1,036,026	77,984	1,114,010
Operating expenses:				
General and administrative expenses	19			(160,085)
OPERATING PROFIT				953,925
Finance costs	20			(441,523)
Other income, net				36,722
Share of net profit from associates and joint ventures	8 a			20,604
SEGMENT PROFIT FOR THE YEAR				569,728
SEGMENT WISE ASSETS & LIBILITIES				
TOTAL ASSETS		22,977,174	3,264,131	26,241,305
TOTAL LIABILITIES		7,445,199	62,556	7,507,755

	Notes	Year ended 31 December 2016		
		Sale of Developed Properties	Leasing of Properties	Group Total (Unaudited)
SEGMENT WISE PROFIT & LOSS		SR 000	SR 000	SR 000
Revenue		1,724,681	145,548	1,870,229
Cost of revenue		(1,004,809)	(73,477)	(1,078,286)
GROSS PROFIT		719,872	72,071	791,943
Operating expenses:				
General and administrative expenses	19			(160,028)
OPERATING PROFIT				631,915
Finance costs	20			(385,984)
Other income, net				(32)
Share of net profit from associates and joint ventures	8 a			12,878
SEGMENT PROFIT FOR THE YEAR				258,777
SEGMENT WISE ASSETS & LIBILITIES				
TOTAL ASSETS		20,910,096	3,575,678	24,485,774
TOTAL LIABILITIES		6,229,186	79,081	6,308,267

5 INVESTMENT PROPERTIES, NET

The movement in investment properties is as follows:

	2017 SR 000	2016 SR 000
COST		
At beginning of the year	**3,714,178**	3,717,560
Transfer to development properties	**(76,999)**	-
Additions	**-**	(3,382)
At end of the year	**3,637,179**	3,714,178
ACCUMULATED DEPRECIATION		
At beginning of the year	**289,400**	215,923
Transfer to development properties	**(14,110)**	-
Charged during the year	**71,879**	73,477
At end of the year	**347,169**	289,400
CARRYING AMOUNT AT THE END OF THE YEAR	**3,290,010**	3,424,778

Included within investment properties is land with an original cost of SR 578.1 million (31 December 2016: SR 578.1 million).

Fair value estimation:

Fair value of the investment properties are estimated by management by using income capitalisation method, the range of capitalisation rates are determined based on the nature and the designated use of the assets and various external valuation references for similar type of assets. The annualised lease cash flows are estimated by extrapolating and adjusting current lease revenues for optimal occupancy and capitalising it at an annual rent yield of 5-7% between residential and commercial leased properties to arrive the fair value estimated as below:

	2017 SR 000	2016 SR 000
COST	**3,290,010**	3,424,778
ESTIMATED FAIR VALUE		
Estimated on rent yield of 5-7 % on Investment properties	**3,313,183**	3,596,000

The fair valuation of investment properties is categorised under Level 3 in the fair value hierarchy

6 DEVELOPMENT PROPERTIES

The movement in development properties, the principle operation of the Company, are summarised as follows:

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017				
	Short-term Developed Projects	Short-term Developed land	Developed land	Projects under Developments	Total
	SR 000	SR 000	SR 000	SR 000	SR 000
COST					
At beginning of the year	-	317,325	1,581,442	15,139,619	17,038,386
Additions during the year	692	5,432	16,648	1,298,986	1,321,758
Transfer	62,889	-	-	-	62,889
Charged to cost of sales during the year	(14,354)	(249,309)	(823,060)	(2,462,070)	(3,548,793)
CARRYING AMOUNT AT THE END OF THE YEAR	49,227	73,448	775,030	13,976,535	14,874,240
Short- term development properties					122,675
Long-term development properties					14,751,565

FOR THE YEAR ENDED 31 DECEMBER 2016

	2016			
	Short-term Developed land	Developed land	Projects under Developments	Total
	SR 000	SR 000	SR 000	SR 000
COST				
At beginning of the year	437,185	1,963,764	14,633,477	17,034,426
Additions during the year	-	25,000	983,769	1,008,769
Charged to cost of sales during the year	(119,860)	(407,322)	(477,627)	(1,004,809)
CARRYING AMOUNT AT THE END OF THE YEAR	317,325	1,581,442	15,139,619	17,038,386
Short- term development properties				317,325
Long-term development properties				16,721,061

Projects under development includes land worth SR 6.63 billion (31 December 2016: SR 6.23 billion), which represents the Group's share of co-ownership with third parties according to the contracts of land development.

During the year ended 31 December 2017 the Group has capitalised Islamic borrowing costs amounting to SR nil (31 December 2016: nil) on qualifying assets. Islamic borrowing costs were capitalised at an annual weighted average capitalisation effective rate of 0% (31 December 2016: 0%).

Fair value estimation:

During the year the Group's management and directors conducted an internal review and valuation of the real estate portfolio of development properties which resulted in a fair value indicating an average uplift of 35% (31 December 2016 46%) across the development property portfolio. The management believes that the resultant uplift on the book value is a conservative indication of the fair value of the properties of the Group.

In view of the continuing volatility and uncertainty in the real estate market the transaction volumes are showing considerable stabilisation on lowering price trend. Hence to normalise the fair value assumptions along with known comparable transaction at arms-length around properties, the management included additional valuation methodologies and measures of average IRR in the range of 5-7% for development properties to arrive at the fair value estimate.

31 DECEMBER 2017	2017				
	Short-term Developed Project	Short-term Developed land	Developed land	Projects under Developments	Total
	SR 000	SR 000	SR 000	SR 000	SR 000
COST	49,227	73,448	775,030	13,976,535	14,874,240
ESTIMATED FAIR VALUE					
Estimated @ 35% margins on cost – Land	50,000	99,000	1,046,000	18,868,000	20,063,000
Estimated @ 5-7 % IRR – Land	50,000	151,000	1,390,000	21,628,000	23,219,000
Average fair value on land	50,000	125,000	1,218,000	20,248,000	21,641,000
Estimated fair value	50,000	125,000	1,210,000	20,240,000	21,625,000

31 DECEMBER 2016	2016			
	Short-term Developed land	Developed land	Projects under Developments	Total
	SR 000	SR 000	SR 000	SR 000
COST	317,325	1,581,442	15,139,619	17,038,386
ESTIMATED FAIR VALUE				
Estimated @ 46% margins on cost – Land	463,000	2,309,000	22,104,000	24,876,000
Estimated @ 8-12 % IRR – Land	701,000	2,983,000	25,080,000	28,764,000
Average fair value on land	582,000	2,646,000	23,592,000	26,820,000
Estimated fair value	582,000	2,646,000	23,592,000	26,820,000

Sensitivity in fair value estimation:

The estimated fair value of Group's investment properties and development properties can be impacted by the occurrence of interrelated unobservable inputs determined by existing market conditions. The impact of two unobservable inputs may not be off-setting each other; for example, an increase in capitalisation rate may off- set an increase in annual rent but an increase in annual rent with a decrease in capitalisation rate would boost the fair value.

	Increase	Decrease
	SR 000	SR 000
Change in fair value on land		
10% change in comparable margins	1,487,000	(1,487,000)
1% change in IRR	1,819,000	(1,682,000)
Average change in fair value on land	1,653,000	(1,584,000)
Change in fair value on Properties		
50 basis points change in capitalisation rate	257,000	(219,000)
Sensitivity impact on estimated fair value	1,910,000	(1,803,000)

The fair valuation of investment properties are categorised under Level 3 in the fair value hierarchy

7 PROPERTY AND EQUIPMENT, NET

2017	Land and buildings	Leasehold improvement	Vehicles	Machinery and tools	Office equipment	Total
	SR 000	SR 000	SR 000	SR 000	SR 000	SR 000
COST						
Balance at 1 January 2017	109,145	19,037	8,447	13,509	42,058	192,196
Additions for the year	-	127	-	302	6,622	7,051
Transfer	-	(13,021)	-	-	(8)	(13,029)
Balance at 31 December 2017	109,145	6,143	8,447	13,811	48,672	186,218
ACCUMULATED DEPRECIATION						
Balance at 1 January 2017	45,139	19,037	8,445	13,507	40,706	126,834
Depreciation for the year	3,016	8	-	23	926	3,973
Transfer	-	(13,021)	-	-	(8)	(13,029)
Balance at 31 December 2017	48,155	6,024	8,445	13,530	41,624	117,778
CARRYING AMOUNT AT 31 DECEMBER 2017	60,990	119	2	281	7,048	68,440

2016	Land and buildings	Leasehold improvement	Vehicles	Machinery and tools	Office equipment	Total
	SR 000	SR 000	SR 000	SR 000	SR 000	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
CARRYING AMOUNT AT 31 DECEMBER 2016	64,006	-	2	2	1,352	65,362

8 INVESTMENTS IN ASSOCIATES AND JOINT VENTURE

Investments in associates and joint venture represent investments in shares of companies, where the Group exercises significant influence. The shares of these companies are not publicly traded. The Group's ownership in these Saudi Arabia based privately owned companies ranges from 15% to 51%. For entities where the investment is less than 20%, management believes that it is able to exert significant influence due to its involvement at board level. Movement in investments in associates and joint ventures is as follows:

a. Investments in associates and joint ventures:

	2017	2016
	SR 000	**SR 000**
Investments, beginning of year	**790,585**	776,207
Additions	**-**	1,500
Share of profit during the year	**20,604**	12,878
Investments, end of year	**811,189**	790,585

b. Summarised details of holding in respect of the Group's associates and joint venture is set out below:

Name of the entity	Amount invested	% of Holding
	SR 000	
Saudi Home Loans (SHL)	**120,000**	**15%**
Alkhair Capital Saudi Arabia (ACS)	**102,000**	**34%**
Khozam Real Estate Development Company (i) (KDC)	**525,547**	**51%**
Juman company	**1,500**	**18%**
Accumulated share of profits	**62,142**	
Balance, end of the year	**811,189**	

c. Summarised financial information in respect of the Group's associates and joint venture is set out below:

31 DECEMBER 2017	Juman SR 000	KDC SR 000	ACS SR 000	SHL SR 000	TOTAL SR 000
Total assets	-	541,828	287,876	4,285,906	5,115,610
Total liabilities	-	(36,693)	(32,232)	(2,851,565)	(2,920,490)
Net assets	-	505,135	255,644	1,434,341	2,195,120
Group's share of net assets	**1,500**	**507,619**	**86,919**	**215,151**	**811,189**
Total revenue for the year	-	-	59,535	156,195	215,730
Total profit for the year	-	(2,820)	22,369	91,486	111,035
Total cumulative earning at end of the year	-	(35,610)	(44,356)	634,340	554,374
Total cumulative earning at end of last year	-	(32,332)	(69,009)	541,715	440,374
Change for the year	-	(3,278)	24,653	92,625	114,000
Group's share of cumulative profit for the year	**-**	**(1,672)**	**8,382**	**13,894**	**20,604**

31 DECEMBER 2016	Juman SR 000	KDC SR 000	ACS SR 000	SHL SR 000	TOTAL SR 000
Total assets	-	542,547	254,996	4,119,969	4,917,512
Total liabilities	-	(34,134)	(24,006)	(2,778,254)	(2,836,394)
Net assets	-	508,413	230,990	1,341,715	2,081,118
Group's share of net assets	**1,500**	**509,233**	**78,628**	**201,224**	**790,585**
Total revenue for the year	-	-	24,472	116,040	140,512
Total profit for the year	-	(4,994)	(1,603)	71,648	65,051
Total cumulative earning at end of the year	-	(32,332)	(69,009)	541,715	440,374
Total cumulative earning at end of last year	-	(27,794)	(70,857)	444,620	345,969
Change for the year	-	(4,538)	1,848	97,095	94,405
Group's share of cumulative profit for the year	**-**	**(2,314)**	**628**	**14,564**	**12,878**

Details of transactions with associates and joint ventures are disclosed under note 23 "Related Party Transactions" of these consolidated financial statements.

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

(II) The KDC investment include SR 250 million as an exclusive right to participate in the Khozam project development and SR 276 million as capital contribution fully paid in cash. The other shareholder (JDURC) contributed SR 265 million worth of land as capital contribution. The management believes that the value of the total investment has not diminished.

(III) During 2016 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.

9 OTHER ASSETS (DEFERRED CHARGES), NET

The movement during the year is as below:

	2017 SR 000	2016 SR 000
Balance, beginning of the year	828	-
Additions during the year	1,122	**828**
Amortisation charge for the year	-	-
Balance , end of the year	1,950	**828**

10 TRADE RECEIVABLES AND OTHERS

	2017	2016
	SR 000	SR 000
Trade receivables – net of allowances for doubtful debts of SR 19.02 million (31 December 2016:SR 19.02 million)	**3,338,618**	1,839,470
Advance payments to purchase land	**559,670**	697,190
Accrued revenue	**2,219**	2,208
Prepayments and others	**131,955**	43,247
Short term investment- trading (note 10c)	**863**	863
	4,033,325	2,582,978

The fair value of financial assets included above approximates the carrying amount. No penalties are charged for delayed payments.

Trade receivable disclosed above include amounts (see below for ageing analysis) that are past due from the date of invoice, at the end of the reporting period for which the Group has not recognized an allowance for doubtful debts because there has not been a significant change in credit quality.

a) Ageing of trade receivables that are due but not impaired

	2017	2016
	SR 000	SR 000
0-60 days	**1,839,703**	1,006,178
61-120 days	**656,027**	528,103
121-180 days	**528,452**	144,471
Above 180 days	**314,436**	160,718
Total	**3,338,618**	1,839,470

Ageing are from the date of invoice and the trade receivables include about 98% (31 December 2016: 92%) receivables against land and project sales which are fully secured against such land and project parcels.

b) Movement in the allowance for doubtful debts

	2017 SR 000	2016 SR 000
Balance, beginning of the year	**19,019**	18,019
Allowance for the year	**-**	1,000
Balance, end of the year	**19,019**	19,019

c) Short term investment – Fair value through profit or loss (FVTPL)

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:

	2017 SR 000	2016 SR 000
Balance, beginning of the year	**863**	804
Purchased / sold during the year	**-**	-
	863	804
Realised gains	**-**	59
Total	**863**	863
Transfers/withdrawals	**-**	-
Balance, end of the year	**863**	863

Investment includes SR 863 thousand as at 31 December 2017 (31 December 2016 SR 863 thousand) representing cash deposit held with the fund manager. The funds are expected to be invested in the subsequent periods

11 CASH AND CASH EQUIVALENTS

	2017	2016
	SR 000	SR 000
Cash in hand	**1,307**	786
Cash with bank	**3,158,359**	581,302
Total	**3,159,666**	582,088

12 LONG-TERM BORROWINGS

	2017	2016
	SR 000	SR 000
Islamic Sukuk	**4,719,263**	3,187,500
Islamic Murabaha	**1,760,575**	2,093,025
	6,479,838	5,280,525
Less: Un-amortised transaction costs (note 12 b)	**(80,856)**	(65,155)
Borrowings end of the year	**6,398,982**	5,215,370
Less: Borrowing -short-term maturity portion	**(1,678,648)**	(324,995)
Borrowing -long-term maturity portion	**4,720,334**	4,890,375

a. Repayable as follows:

	2017	2016
	SR 000	SR 000
Within one year	**1,690,463**	332,450
In the second year	**1,859,325**	2,033,700
In the third to fifth years inclusive	**2,930,050**	2,914,375
	6,479,838	5,280,525

b. Islamic borrowings transaction costs:

	2017 SR 000	2016 SR 000
Balance, beginning of the year	**65,155**	97,373
Additions during the year	**48,551**	230
Amortisation charge for the year	**(32,850)**	(32,448)
Balance, end of the year	**80,856**	65,155

a. Analysis of borrowings:

c. This represents SR 5.06 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, of which SR 343.23 million (USD 91.53 million) bought back during 2017 resulting an outstanding of SR 1.35 billion (USD 358.47 million) as at 31 December 2017.

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.

3) SR 1.88 billion (USD 500 million) of Islamic Sukuk carried in the books of the Group, issued by Dar Al-Arkan Sukuk Company Ltd. at 6.9% and maturing in 2022.

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 31December 2017.

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 10 years with various repayment schedules like annual roll revolvers, bullet payments and instalment repayments ranging from quarterly and half yearly as detailed below.

Summary of the Murabahas:

Maturity date	Outstanding Balance	Short-term	Long-term
	SR 000	SR 000	SR 000
2020	958,125	315,000	643,125
2023	530,450	16,200	514,250
2027	272,000	15,000	257,000
TOTAL	**1,760,575**	**346,200**	**1,414,375**

The total weighted average effective annual commission rate for the year ended 31 December 2017 is 6.95% (31 December 2016: 6.06%)

The facility agreements include certain financial covenants, which the Group was in compliance with as at 31 December 2017.

13 END OF SERVICE INDEMNITIES

The Group provides a defined end of service benefit plan to its employees in line with the labour law provisions and requirement in the Kingdom of Saudi Arabia for respective entities under the Group. The payments under the plan are based on the employees' final salaries and allowances and their cumulative years of service at the date of cessation of their employment, as defined by the conditions stated in the labour laws of the Kingdom of Saudi Arabia. Employees' end of service benefit plans are unfunded plans where the respective entities meet the benefit payment obligations as it falls due.

The movement of the obligation accrued is as follows:

	2017 SR 000	2016 SR 000
Balance, beginning of the year	**25,682**	20,973
Charged to expenses during the year	**5,129**	6,317
Re-measurement gain	**(2,675)**	-
Paid during the year	**(6,175)**	(1,608)
Balance, end of the year	**21,961**	25,682

During the year the Group conducted an actuarial valuation and the relevant disclosures are as follows;

A. Significant actuarial assumptions:

	2017	2016
Discount rate	**3.0%**	3.0%
Long term salary increase rate	**3.0%**	3.0%
Employee attritions	**Moderate**	Moderate

B. Movement in present value of employee benefit obligation

	2017 SR 000	2016 SR 000
Balance, beginning of the year	**25,546**	22,334
Net period benefit cost	**4,886**	4,820
Re-measurement gain	**(2,675)**	-
Paid during the year	**(6,175)**	(1,608)
Balance, end of the year	**21,582**	25,546

C. Analysis of present value of obligation

	2017 SR 000	2016 SR 000
Benefit obligation earned and accumulated to the date of financial position	16,923	18,937
Benefits attributed to future salary increase	4,659	6,609
Total	21,582	25,546

D. Sensitivity Analysis of obligation

The sensitivity of employee benefit obligation is calculated based on a change in an assumption while all other significant actuarial assumptions, used in the valuations employee benefit obligation, remained unchanged. The vale impact in the obligation with a change in an assumption as follows:

	2017 SR 000	2016 SR 000
Discount rate + 0.5%	20,715	24,311
Discount rate - 0.5%	22,513	26,883
Long term salary increase + 0.5%	22,562	26,941
Long term salary increase - 0.5%	20,661	24,246

E. Effect of defined benefit plan on entity's future cash flows

The weighted average duration of the employee benefit obligation is 8.03 years for the year ended December 31, 2017 (31 December 2016: 9.67). The expected maturity analysis of undiscounted defined benefit obligation is as follows:

	2017 SR 000	2016 SR 000
Within one year	2,286	1,546
In the second year	3,781	2,519
Between third and fifth years	5,490	3,322
Above five years	10,025	18,295
	21,582	25,682

14 TRADE PAYABLES AND OTHERS

	2017 SR 000	2016 SR 000
Trade payables	**173,352**	173,457
Due to related parties (note 23a)	**192,530**	193,363
Accruals	**89,730**	62,286
Unpaid dividend	**35,350**	35,358
Lease liability (note 22b)	**2,301**	742
Unearned revenue	**43,879**	64,515
	537,142	529,721

Trade payables and others principally comprise amounts outstanding for trade purchases and on- going costs. The average credit period taken for trade purchases is 30 days (31 December 2016: 30 days).

The fair value of financial liabilities included above approximates the carrying amount.

15 ZAKAT PROVISIONS

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

	2017 SR 000	2016 SR 000
Zakat base:		
Equity	**17,720,285**	17,441,756
Provisions and other adjustments	**3,386,684**	2,980,955
Total Zakat base	**21,106,969**	20,422,711
Deductions:		
Total deduction after adjustment	**(21,106,969)**	(20,422,711)
Zakat base	**-**	-

b) Adjusted net income for the year:

	2017 SR 000	2016 SR 000
Adjusted net income:		
Income for the year before Zakat	**546,161**	244,801
Adjusted net income	**546,161**	244,801
Estimated Zakat and Tax provision for the year	**14,443**	7,943

c) The movement in provision for Zakat:

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

	2017 SR 000	2016 SR 000
Balance beginning of the year	**537,494**	555,757
Estimated Zakat for the year	**14,443**	7,943
Paid during the year	**(2,267)**	(26,206)
Estimated Zakat provision, end of the year	**549,670**	537,494

d) The Company has received the assessments from GAZT for the years 2003 to 2007. The company had filed the consolidated zakat return for years 2008 to 2016.

16 SHARE CAPITAL

	2017 SR 000	2016 SR 000
Authorised:		
1,080,000,000 ordinary shares of SR 10 each	**10,800,000**	10,800,000
Issued and fully paid shares of SR 10 each		
At the start of the year	**10,800,000**	10,800,000
At the end of the year	**10,800,000**	10,800,000

The Group has one class of ordinary shares which carry no right to fixed income.

17 REVENUE

	2017 SR 000	2016 SR 000
Sale of land	4,563,391	1,724,681
Sale of residential properties	21,428	-
Leasing of properties	149,863	145,548
Total	4,734,682	1,870,229

18 COST OF REVENUE

	2017 SR 000	2016 SR 000
Land cost	**3,534,439**	1,004,809
Residential properties-cost	**14,354**	-
Direct cost on leasing – Depreciation	**71,879**	73,477
Total	**3,620,672**	1,078,286

19 GENERAL AND ADMINISTARTIVE EXPENSES

	2017 SR 000	2016 SR 000
General and administrative expenses	**157,106**	156,005
Depreciation (refer note 7 & 22a)	**4,896**	4,023
Total	**162,002**	160,028

20 FINANCE COSTS

	2017	2016
	SR 000	SR 000
Charges on Sukuk	**287,697**	253,374
Charges on Islamic Murabaha	**120,915**	100,117
Charges on Lease liability (note 22b)	**61**	45
Amortisation of transaction costs (note 12b)	**32,850**	32,448
Total	**441,523**	385,984

21 EARNINGS PER SHARE

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

	2017	2016
	SR 000	SR 000
Earnings		
For the purpose of basic earnings per share (Net profit for the year)	**553,368**	250,834
Number of shares	**Number**	Number
Weighted average number of ordinary shares For the purposes of basic earnings per share	**1,080,000,000**	1,080,000,000

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

22 OPERATING LEASE ARRANGEMENTS

A: GROUP AS LESSEE

a) Right of use assets

Below is the "right of use assets" for the lease arrangements entered and unexpired as at the reporting date, qualifying for accounting under IFRS 16. The details and movements for this assets is summarised as follows, and the depreciation charged to this asset is included in depreciation expenses.

	2017 SR 000	2016 SR 000
COST		
At beginning of the year	**1,126**	-
Additions for the year	**3,079**	1,126
Transfer/ retirements	**(537)**	-
At end of the year	**3,668**	1,126
ACCUMULATED DEPRECIATION		
At beginning of the year	**357**	-
Charged during the year	**923**	357
Transfer/ retirements	**(97)**	-
At end of the year	**1,183**	357
NET BOOK VALUE AT THE END OF THE YEAR	2,485	769

The balance in right of use assets are included with the property plan and equipment (refer note 7)

Summary adjustments

Under IFRS 16 requirements, the group identified summary adjustments amounting to SAR nil (31 December 2016 SAR 152 thousand) as a result of retrospective period adjustments for the unexpired operating leases. This amount has been fully recognised and charged as expenses in the consolidated profit or loss for the year ended 31 December 2016.

b) Lease liability

The "lease liability" to account for its unexpired operating lease qualified for accounting under IFRS 16 requirements and the details of the movements are as below. The interest cost accrued is included in the financing charges.

	2017	2016
	SR 000	SR 000
LIABILITY		
At beginning of the year	**1,171**	-
Additions for the year	**3,079**	1,126
Transfer/ retirements	**(560)**	-
Finance cost for the year	**61**	45
At end of the year	**3,751**	1,171
PAYMENTS		
At beginning of the year	**429**	-
Paid during the year	**1,021**	429
At end of the year	**1,450**	429
BALANCE AT THE END OF THE YEAR	**2,301**	742

The balance in lease liability is included with trade payables and others (refer note 14)

c. Minimum lease payments

The minimum lease payments under non-cancellable operating lease rentals are as follows:

	2017	2016
	SR 000	SR 000
Amounts due:		
Within one year	**1,025**	454
Between one and five years	**2,463**	889
After five years	**-**	-
	3,488	1,343

B: GROUP AS LESSOR

The minimum lease receivables under non-cancellable operating lease rentals are as follows:

	2017	2016
	SR 000	SR 000
Amounts Receivable:		
Within one year	**59,496**	55,163
Between one and five years	**145,604**	110,309
After five years	**29,782**	61,040
	234,882	226,512

23 RELATED PARTY TRANSACTIONS

a) Due to related parties

The Khozam Real Estate Development Company (KDC) management requested to invest excess cash balance of KDC with the group at a nominal profit. The details of the transactions, included in trade payable and other (refer note # 14), are as follows:

	2017	2016
	SR 000	SR 000
Balance, beginning of the year	**193,363**	194,253
Repayment of advances for the year	**(1,553)**	(1,130)
Profit charged for the year	**720**	240
Balance, end of the year	**192,530**	193,363

b) Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the year are as follows:

	2017	2016
	SR 000	SR 000
Short-term benefits	**8,641**	9,257
End-of-service benefits	**857**	770
Remunerations and attendance fees to Board of Directors and Executive Committee	**-**	-
	9,498	10,027

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 trade payable under trade payable and others (refer note # 14), are as follows:

	2017	2016
	SR 000	SR 000
Balance, beginning of the year	**115**	115
Fees & expenses charged for the year	**(115)**	-
Amounts paid during the year	**-**	-
Balance, end of the year	**-**	115

(ii) Alkhair Capital Saudi Arabia

The Group engaged Alkhair Capital Saudi Arabia, an associate entity, to provide general financial advisory, representing and filing the documents on behalf of the Group for requirements with CMA and other statutory bodies, Shariah' compliance reviews and management support for the local and international borrowing including recent international sukuk issuances and leasing/subleasing of properties. The details of the transactions, included in trade payable under trade payable and others (refer note # 14), are as follows:

	2017	2016
	SR 000	SR 000
Fees and expenses on indirect engagement with group AlKhair Capital Dubai during the year	**4,135**	-
Amount paid during the year	**(4,135)**	-
Balance, end of the year	**-**	-

(iii) Alkhair Capital Dubai Ltd.

The Group engaged Alkhair Capital Dubai, an associate entity, to provide general financial advisory, and secondment services to international subsidiaries. The details of the transactions, included in trade payable under trade payable and others (refer note # 14), are as follows:

	2017	**2016**
	SR 000	**SR 000**
Fees and expenses on indirect engagement with group AlKhair Capital Dubai during the year	**897**	-
Amount paid during the year	**-**	-
Balance, end of the year	**897**	-

For the year ended 31 December 2017 and 2016, no other transactions are entered into with entities that have common Board Members or Shareholders to the Group.

In addition, the Group entered into certain other transactions with related parties that did not have a significant impact on the financial position or comprehensive income of the Group.
See also note 8.

24 RETIREMENT BENEFIT PLANS

The Group makes payments to defined contribution retirement benefit plans in the form of the General Organisation of Social Insurance that are charged as an expense as they fall due. Payments are made on the basis of a percentage of qualifying salary for certain employees to this state-managed scheme.

The total cost charged to the consolidated statement of profit or loss and comprehensive income for the year ended 31 December 2017 was SR 6.32million (31 December 2016: SR 4.54 million), and the outstanding contribution as at 31 December 2017 is SR 367 thousand (31 December 2016: SR 219 thousand).

25 CAPITAL MANAGEMENT

The executive committee reviews the capital structure of the Group on a semi-annual basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to its parent company through optimisation of debt and equity balances. The Group's overall strategy remains unchanged from 2007, when the Group diversified its sources of funding and issued two medium term Sukuks ranging from 3-5 years. Considering the track record of timely repayment of the first two Sukuk and the group expertise developed over the past five years to access international markets for shariah' compliant funding, the management continue to maintain its relationship with the capital markets and monitor the markets for future issuance. The Group adhere to international best practices in corporate governance and consider the capital market transactions to create additional shareholders value.

The capital structure of the Group consists of net debt (borrowings adjusted with cash and cash equivalents) and equity (comprising share capital, statutory reserve, and retained earnings). The Group is not subject to any externally imposed capital requirements.

Gearing ratio

The Group consistently monitors its gearing ratio, to ensure compliance with external covenant requirements.

The gearing ratio at end of the reporting year was as follows:

	2017	2016
	SR 000	SR 000
Islamic borrowings	**6,398,982**	5,215,370
Cash and cash equivalents and short term deposits	**(3,159,666)**	(582,088)
Net debt	**3,239,316**	4,633,282
Shareholders' equity	**18,733,550**	18,177,507
Net debt to equity ratio	**17%**	25%

26 FINANCIAL RISK MANAGEMENT

The Group's principal financial liabilities are mainly comprised of Islamic Murabaha (term and annual revolving) facilities taken from banks, issue of Islamic Sukuk, trade payable and other payables to contractors and suppliers. The paramount objectives of these financial instruments are to raise the funding base for various projects as well as for the working capital requirement of the Group.

The Group also has financial assets in the form of bank deposits, cash in hand, due from related parties and trade and other receivables, which are integral and directly derived out of its regular business. On the reporting date the Group has not entered into any non-Islamic financial variable instrument contracts by way of currency hedging, commission rate swap agreements or similar instruments.

The Group's financial operations are subject to the following risks:

1. Credit Risk
2. Commission Rate Risk
3. Liquidity Risk
4. Foreign Currency Risk
5. Islamic financial variable instrument

Credit Risk

The Credit Risk can be defined as a loss of value of an asset as a result of a failure by a customer or a counter party to such commercially valid and legally enforceable contract to comply with its obligations.

The general sales policy of the Group is "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 respect to the credit risk exposure of other financial assets, namely, due from related parties, bank deposits and trade and other receivables, the maximum credit risk of the Group is limited to their carrying values, in case there is a failure of the other party to meet its obligation.

As of the reporting date, the Group does not have significant credit risk concentration with any single party or a group.

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 Islamic Murabaha (revolving credit) facilities obtained from local banks.

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

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

The commission rate sensitivity analysis is performed based on the commission rate exposure of the Group for floating rate liabilities outstanding at the reporting date. The calculations are done on floating commission rates assuming the liabilities outstanding for a whole year as at the reporting date.

During the period under review the average rate of 3 months LIBOR varied between 1.34% and 1.70% (0.85% and 0.99% for 2016) and SAIBOR varied between 1.79% and 1.90% (2.03% and 2.39% for 2016).

The sensitivity of commission rate variance on the Group's external borrowings which affects the consolidated financial statements of the Group is shown below:

	2017 SR 000	2016 SR 000
+ 25 basis points	**4,401**	5,233
- 25 basis points	**(4,401)**	(5,233)

The net profit of the Group for the reported period would have been affected by the above amount as a result of such changes in floating commission rates. If there is any capitalisation of borrowing costs directly attributed to projects in progress, there would be timing differences on such an impact to the Group's current profit and loss account and the current impact would be nil as there is no capitalisation for the current year and historically, the management capitalises approximately 10% of borrowing costs to projects in progress as explained in note 2.9.

Liquidity Risk

Liquidity Risk can result from a difficulty to meet the financial commitments and obligations of the Group as per the agreed terms and covenants.

To mitigate the liquidity risk and associated losses of business and brand value opportunities; the Group, where possible, keeps sufficient liquid assets in all business conditions. The Group refrains from funding its long term capital requirements through short term borrowings and related party current account transactions. Currently the long term projects are funded from long term or revolving borrowings only. The Group also has a dynamic cash flow assessment policy and system by which it can estimate and plan the maturities as well as required resources to meet such obligations.

The total weighted average effective annual commission rate for the year ended 31 December 2017is 6.95% (31 December 2016: 6.06%)

See notes 12 and 14 for further details.

a) The maturity profile of assets, liabilities and equity as at 31 December 2017 and 2016 are as follows:

31 December 2017	Within 3 Months	3 months to 1 year	One year to 10 years	No fixed maturity	Total
	SR 000	SR 000	SR 000	SR 000	SR 000
Assets					
Investment properties, net	-	-	-	3,290,010	3,290,010
Development properties	-	122,675	-	14,751,565	14,874,240
Property and equipment, net	-	-	-	70,925	70,925
Investments in associates	-	-	-	811,189	811,189
Other assets	-	-	1,950	-	1,950
Trade receivables and others	-	4,033,325	-	-	4,033,325
Cash and cash equivalents	**3,159,666**	**-**	**-**	**-**	**3,159,666**
Total assets	3,159,666	4,156,000	1,950	18,923,689	26,241,305
Liabilities and equity					
Islamic borrowings	82,800	1,595,848	4,720,334	-	6,398,982
End of service indemnities	-	-	-	21,961	21,961
Trade payables and others	-	149,468	-	387,674	537,142
Zakat provisions	-	-	-	549,670	549,670
Shareholders' Equity	-	-	-	18,733,550	18,733,550
Total liabilities and equity	**82,800**	**1,745,316**	**4,720,334**	**19,692,855**	**26,241,305**

31 December 2016	Within 3 Months	3 months to 1 year	One year to 11 years	No fixed maturity	Total
	SR 000	SR 000	SR 000	SR 000	SR 000
Assets					
Investment properties, net	-	-	-	3,424,778	3,424,778
Development properties	-	317,325	-	16,721,061	17,038,386
Property and equipment, net	-	-	-	66,131	66,131
Investments in associates	-	-	-	790,585	790,585
Other assets	-	-	828	-	828
Trade receivables and others	-	2,582,978	-	-	2,582,978
Cash and cash equivalents	582,088	-	-	-	582,088
Total assets	**582,088**	**2,900,303**	**828**	**21,002,555**	**24,485,774**
Liabilities and equity					
Islamic borrowings	56,550	268,445	4,890,375	-	5,215,370
End of service indemnities	-	-	-	25,682	25,682
Trade payables and others	-	167,492	-	362,229	529,721
Zakat provision	-	-	-	537,494	537,494
Shareholders' Equity	-	-	-	18,177,507	18,177,507
Total liabilities and equity	**56,550**	**435,937**	**4,890,375**	**19,102,912**	**24,485,774**

Foreign Currency Risk

Foreign Currency Risk is associated with the change in the value of the carrying value in the functional currency due to the variation of the underlying foreign currency obligation or right by way of transaction or translation reasons. The functional currency of the Group is the Saudi Riyal that is pegged against the US Dollar with a fixed exchange rate of 3.75 Saudi Riyals per US Dollar. Since transactions, other than US Dollars, are negligible; the Group does not assume any significant foreign currency risk.

Islamic financial variable Instruments Risk

As part of its asset and liability management, the Group uses Islamic finance variable instruments for hedging its exposure to commission rate and cash flow risks. This is generally achieved by hedging specific transactions. The Group uses Islamic finance variable instruments primarily to manage exposures to foreign currency and commission rate risks. The Group's principal objective in holding Islamic finance variable instruments is to reduce the cash outflows associated with changes in foreign currency and fixed commission rates. The Group's Islamic finance variable instruments are exposed to credit risk to the extent of that counterparty's inability to meet the contractual obligations. The Group mitigates such risks by dealing with major financial institutions as its counterparties. The group Management does not expect any material losses or risk from the default of counterparties as the potential risk of such defaults is periodically monitored.

27 COMMITMENTS AND CONTIGENCIES

To complete the long term construction and development of investment and development properties, the Group have committed to a number of contractual arrangements and agreements. Such contracts are cancellable at the Group's discretion with no penalties. The estimated uncompleted contracts outstanding as at 31 December 2017 amounts to SR 49 million (31 December 2016: SR 49 million) and performance commitment through a bank guarantee for SR 74 million against receivable collected (31 December 2016: SR 74 million).

These commitments are expected to be settled within the duration of the projects in progress and shall be funded through prospective property sales and external borrowings, if necessary.

During the normal course of business there are general litigations and legal claims. Management takes legal advice as to the likelihood of success of claims and no provision is made when the action is unlikely to succeed.

At 31 December 2017, there were no significant claims notified (31 December 2016: None).

28 STATUTORY ADOPTION OF IFRS

The Group is not the first time adopter of IFRS. The Group has been consistently prepared and issued its financial statements in compliance with International Financial Reporting Standards (IFRS) from the year ended 31 December 2008 and for all period's up to and including the year ended 31 December 2016, for complying with its international capital market covenants and management requirements.

The IFRS reports were issued separately and independently in parallel without affecting its statutory financial statement prepared and issued in accordance with generally accepted accounting principle in the Kingdom of Saudi Arabia (SOCPA).

However, the below table explains the principal reclassification, grouping and adjustments, if any, made by the Group in restating its SOCPA financial statements, including the statement of financial position and statement of changes in equity, as at 31 December 2016 together with the profit or loss and other comprehensive income for the year ended 31 December 2016.

28A – Reconciliation of Financial position as at 01 January 2016

As per SOCPA

	Notes	01 January 2016
ASSETS		SR 000
Current Assets		
Developed land – short-term		437,185
Accounts receivable, net	28b	1,948,687
Prepaid expenses and others	28b	974,809
Cash and cash equivalents		1,001,061
Total Current Assets		**4,361,742**
Non-Current Assets		
Investment properties, net		3,501,637
Projects in progress – long-term	28c	8,651,076
Investments in land under development	28c	5,982,401
Developed land – long-term	28c	1,963,764
Investment in associates		776,207
Property and equipment, net		68,416
Total Non-Current Assets		**20,943,501**
TOTAL ASSETS		**25,305,243**
LIABILITIES AND EQUITY		
Current Liabilities		
Islamic borrowings – current portion		1,531,945
Due to a related party	28d	194,253
Accounts payable	28d	173,433
Accrued expenses and others	28d	697,349
Total Current Liabilities		**2,596,980**
Non-Current Liabilities		
Islamic borrowings		4,760,617
Provision for end-of-service indemnities		20,973
Total Non-Current Liabilities		**4,781,590**
Total liabilities		**7,378,570**
Shareholders' Equity		
Share capital		10,800,000
Statutory reserve		978,300
Retained earnings		6,148,373
Total Shareholders' Equity		**17,926,673**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**25,305,243**

As per IFRS

	Notes	01 January 2016
ASSETS		SR 000
Current assets		
Development properties		437,185
Trade receivables and others	28b	2,923,496
Cash and cash equivalents		1,001,061
Total current assets		**4,361,742**
Non-current assets		
Investment properties, net		3,501,637
Development properties	28c	16,597,241
Investments in associates and joint ventures		776,207
Property and equipment, net		68,416
Total non-current assets		**20,943,501**
TOTAL ASSETS		**25,305,243**
LIABILITIES AND EQUITY		
Current liabilities		
Borrowings-short-term maturity portion		1,531,945
Trade payables and others	28d	509,278
Zakat provisions	28d	555,757
Total current liabilities		**2,596,980**
Non-current liabilities		
Borrowing -long-term maturity portion		4,760,617
End of service indemnities		20,973
Total non-current liabilities		**4,781,590**
Total liabilities		**7,378,570**
Shareholders' Equity		
Share capital		10,800,000
Statutory reserve		978,300
Retained earnings		6,148,373
Total shareholders' equity		**17,926,673**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**25,305,243**

Explanation for the reconciliation of Financial Position as at 01 January 2016:

28b Trade receivables and others under IFRS

This principally consists of accounts receivables, prepaid expense and due from related parties. For better presentation adopted in IFRS, the management reclassified these assets to trade receivables and others as detailed below:

Asset Description	01 January 2016	Accounting convention
	SR 000	
Accounts receivable, net	1,948,687	SOCPA
Prepaid expenses and others	974,809	SOCPA
Trade receivables and others	2,923,496	IFRS

28c Development properties under IFRS

All development properties are initially measured at acquisition cost and subsequently measured and accounted for at lower of cost and net realisable value. This principally consists of projects under progress and land parcels under development for sales in the ordinary course of business, rather than to be held for rental or capital appreciation. For better presentation adopted in IFRS, the management reclassified various categories of land and land development assets to development properties as detailed below:

Asset Description	01 January 2016	Accounting convention
	SR 000	
Projects in progress – long-term	8,651,076	SOCPA
Investments in land under development	5,982,401	SOCPA
Developed land – long-term	1,963,764	SOCPA
Development properties	16,597,241	IFRS

28d Trade payables and others under IFRS

This principally consists of accounts payables, accrued expense and others including zakat provisions and due to related parties. For better presentation adopted in IFRS, the management reclassified these items to trade payables and others and Zakat payables as detailed below:

Liability Description	01 January 2016 SR 000	Accounting convention
Due to a related party	**194,253**	SOCPA
Accounts payable	**173,433**	SOCPA
Accrued expenses and others	**697,349**	SOCPA
Total as per SOCPA	**1,065,035**	
Trade payables and others	**509,278**	IFRS
Zakat provisions	**555,757**	IFRS
Total as per IFRS	**1,065,035**	

28E - Reconciliation of Equity as at 1 January 2016

Statement of equity as per SOCPA as at

	01 January 2016 SR 000
Share Capital	
Balance as at 01 January 2015	10,800,000
Balance as at 01 January 2016	**10,800,000**
Statutory Reserve	
Balance as at 01 January 2015	942,384
Transferred from retained earnings	35,916
Balance as at 01 January 2016	**978,300**
Retained Earnings	
Balance as at 01 January 2015	5,825,132
Net income for the year	359,157
Transferred to retained earnings	(35,916)
Balance as at 01 January 2016	**6,148,373**
TOTAL SHAREHOLDERS' EQUITY	**17,926,673**

Statement of equity as per IFRS as at

	01 January 2016 SR 000
Share Capital	
Balance as at 01 January 2015	10,800,000
Balance as at 01 January 2016	**10,800,000**
Statutory Reserve	
Balance as at 01 January 2015	942,384
Transferred from retained earnings	35,916
Balance as at 01 January 2016	**978,300**
Statutory Reserve	
Balance as at 01 January 2015	5,825,132
Net income for the year	359,157
Other comprehensive income	-
Transferred to retained earnings	(35,916)
Balance as at 01 January 2016	**6,148,373**
TOTAL SHAREHOLDERS' EQUITY	**17,926,673**

28F – Reconciliation of Financial Position as at 31 December 2016

As per SOCPA	Notes	2016	As per IFRS	Notes	2016
ASSETS		**SR 000**	**ASSETS**		**SR 000**
Current Assets			**Current assets**		
Developed land – short-term		317,325	Development properties		317,325
Accounts receivable, net	28g	1,839,470	Trade receivables and others	28g	2,582,978
Prepaid expenses and others	28g	743,508			
Cash and cash equivalents		582,088	Cash and cash equivalents		582,088
Total Current Assets		**3,482,391**	**Total current assets**		**3,482,391**
Non-Current Assets			**Non-current assets**		
Investment properties, net		3,424,778	Investment properties, net		3,424,778
Projects in progress – long-term	28h	8,878,157			
Investments in land under development	28h	6,261,462	Development properties	28h	16,721,061
Developed land – long-term	28h	1,581,442			
Investment in associates		790,585	Investments in associates and joint ventures		790,585
Property and equipment, net		66,131	Property and equipment, net		66,131
Deferred charges		828	Other assets		828
Total Non-Current Assets		**21,003,383**	Total non-current assets		**21,003,383**
TOTAL ASSETS		**24,485,774**	**TOTAL ASSETS**		**24,485,774**
LIABILITIES AND EQUITY			**LIABILITIES AND EQUITY**		
Current Liabilities			**Current liabilities**		
Islamic borrowings – current portion		324,995	Borrowings-short-term maturity portion		324,995
Due to a related party	28i	193,363	Trade payables and others	28i	529,721
Accounts payable	28i	174,199	Zakat provisions	28i	537,494
Accrued expenses and others	28i	699,653			
Total Current Liabilities		**1,392,210**	**Total current liabilities**		**1,392,210**

28F – Reconciliation of Financial Position as at 31 Decemer 2016

As per SOCPA	Notes	2016	As per IFRS	Notes	2016
Non-Current Liabilities			Non-current liabilities		
Islamic borrowings		4,890,375	Borrowing -long-term maturity portion		4,890,375
Provision for end-of-service indemnities		25,682	End of service indemnities		25,682
Total Non-Current Liabilities		**4,916,057**	Total non-current liabilities		**4,916,057**
Total liabilities		**6,308,267**	Total liabilities		**6,308,267**
Shareholders' Equity			Shareholders' Equity		
Share capital		10,800,000	Share capital		10,800,000
Statutory reserve		1,003,383	Statutory reserve		1,003,383
Retained earnings		6,374,124	Retained earnings		6,374,124
Total Shareholders' Equity		**18,177,507**	Total shareholders' equity		**18,177,507**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**24,485,774**	**TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY**		**24,485,774**

Explanation for the reconciliation of Financial Position as at 31 December 2016:

28g Trade receivables and others under IFRS

This principally consists of accounts receivables, prepaid expense and due from related parties. For better presentation adopted in IFRS, the management reclassified these assets to trade receivables and others as detailed below:

Asset Description	December 2016 31	Accounting convention
	SR 000	
Accounts receivable, net	**1,839,470**	SOCPA
Prepaid expenses and others	**743,508**	SOCPA
Trade receivables and others	**2,582,978**	**IFRS**

28h Development properties under IFRS

All development properties are initially measured at acquisition cost and subsequently measured and accounted for lower of cost and net realisable value. This principally consists of projects under progress and land parcels under development for sales in the ordinary course of business, rather than to be held for rental or capital appreciation. For better presentation adopted in IFRS, the management reclassified various categories of land and land development assets to development properties as detailed below:

Asset Description	December 2016 31	Accounting convention
	SR 000	
Projects in progress – long-term	8,878,157	SOCPA
Investments in land under development	6,261,462	SOCPA
Developed land – long-term	1,581,442	SOCPA
Development properties	**16,721,061**	**IFRS**

28i Trade payables and others under IFRS

This principally consists of accounts payables, accrued expense and others including zakat provisions and due to related parties. For better presentation adopted in IFRS, the management reclassified these items to trade payables and others and Zakat payables as detailed below:

Liability Description	December 2016 31	Accounting convention
	SR 000	
Due to a related party	193,363	SOCPA
Accounts payable	174,199	SOCPA
Accrued expenses and others	699,653	SOCPA
Total as per SOCPA	**1,067,215**	
Trade payables and others	529,721	IFRS
Zakat provisions	537,494	IFRS
Total as per IFRS	**1,067,215**	

28J - Reconciliation of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2016

As per SOCPA	Notes	2016 SR 000	As per IFRS	Notes	2016 SR 000
Revenues from operations		**1,870,229**	Revenue		1,870,229
Cost of operations		**(1,078,286)**	Cost of sales		(1,078,286)
Gross profit		**791,943**	GROSS PROFIT		791,943
Operating expenses:			Operating expenses:		
General, administrative, selling and marketing expenses	28k	**(156,005)**	General and administrative expenses	28k	(160,028)
Depreciation	28k	**(4,023)**			
Amortisation of deferred charges	28k	**(32,448)**			
Income for the year from operating activities		**599,467**	OPERATING PROFIT		631,915
Other Income / (expenses):					
Share of income from investment in associates		**12,878**	Share of net profits from associates and joint ventures		12,878
Islamic Murabaha charges	28l	**(100,162)**	Finance costs	28l	(385,984)
Islamic Sukuk charges	28l	**(253,374)**			
Other (expenses)/ income, net		**(32)**	Other (expenses)/ income, net		(32)
Income for the year before Zakat		**258,777**	PROFIT BEFORE ZAKAT		258,777
Zakat provision		**(7,943)**	Zakat provisions		(7,943)
Net income for the year		**250,834**	NET PROFIT FOR THE PERIOD		250,834
			Other comprehensive income:		
			Other comprehensive income for the period		-
			Total comprehensive income for the period		**250,834**
			Total comprehensive income attributable to:		
			Dar Al Arkan shareholders		**250,834**
Earnings per share for the period (in Saudi Riyal)			Earnings per share (in Saudi Riyal)		
From operating activities		**0.56**			
From net income		**0.23**	Basic and diluted		**0.23**

Explanations for the reconciliation to Profit or Loss and Other Comprehensive Income for the year ended 31 December 2016

28k General and administrative expenses under IFRS

This principally consists of general administrative expense including employee cost, maintenance and utilities, professional and consultancy expense and depreciation of properties and equipment. For better presentation adopted in IFRS, the management reclassified these expenses to general and administrative expenses as detailed below:

Expenses description	31 December 2016	Accounting convention
	SR 000	
General, administrative, selling and marketing expenses	(156,005)	SOCPA
Depreciation	(4,023)	SOCPA
General and administrative expenses	(160,028)	IFRS

28l Finance costs under IFRS

Finance costs principally consist of profit and finance charges paid and accrued against Islamic Sukuks and Muarabaha facilities and amortisation of transaction costs for the relevant period. For better presentation adopted in IFRS, the management reclassified these expenses to finance costs as detailed below:

Expenses description	31 December 2016	Accounting convention
	SR 000	
Amortisation of deferred charges	(32,448)	SOCPA
Islamic Murabaha charges	(100,162)	SOCPA
Islamic Sukuk charges	(253,374)	SOCPA
Finance costs	(385,984)	IFRS

28M - Reconciliation of Equity as at 31 December 2016

Statement of equity as per SOCPA	2016 SR 000	Statement of equity as per IFRS	2016 SR 000
Share Capital		**Share Capital**	
Balance as at 01 January 2016	10,800,000	Balance as at 01 January 2016	10,800,000
Balance as at 31 December 2016	**10,800,000**	**Balance as at 31 December 2016**	**10,800,000**
Statutory Reserve		Statutory Reserve	
Balance as at 01 January 2016	978,300	Balance as at 01 January 2016	978,300
Transferred from retained earnings	25,083	Transferred from retained earnings	25,083
Balance as at 31 December 2016	**1,003,383**	**Balance as at 31 December 2016**	**1,003,383**
Retained Earnings		Retained Earnings	
Balance as at 01 January 2016	6,148,373	Balance as at 01 January 2016	6,148,373
Net income for the period	250,834	Net income for the period	250,834
Transferred to Statutory reserve	(25,083)	Other comprehensive income	-
		Transferred to Statutory reserve	(25,083)
Balance as at 31 December 2016	**6,374,124**	**Balance as at 31 December 2016**	**6,374,124**
TOTAL SHAREHOLDERS' EQUITY	**18,177,507**	**TOTAL SHAREHOLDERS' EQUITY**	**18,177,507**

29 APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and authorized for issue on February 1, 2018.

2017
ANNUAL REPORT

www.daralarkan.com
info@alarkan.com
800 123 3333

Headquarter Riyadh, KSA
12622 Makkah Road, | Al Wizarat - beside Marriott Hotel Riyadh | +966 800 123 3333

Jeddah, KSA
8th floor, | office No. 83, | Al Mukhmal Tower, Al-Khalidiya, | 23422 Prince Saud Al Faisal Road |+966 800 123 3333

London, UK
21 High View Close, | Hamilton Office Park, Hamilton, Leicester, | United Kingdom, LE4 9LJ

Headquarter Dubai, UAE
Office 1402, Conrad Dubai, | Sheikh Zayed Road, Opposite World Trade Centre | PO Box 2523, Dubai

Sarajevo, BIH
UI. Fra Andela, Zvizdovica br. 1, D-mezanin, | 71 000 Sarajevo, BIH

info@alarkan.com
www.daralarkan.com