Board of Directors' Report
for the Financial Year
Ended 31/12/2018

DAR
AL ARKAN
دار الأركان

ANNUAL REPORT
2018

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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 Minster of Defense

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Company Overview

2018	Launching Mirabila the first phase of Shams Ar Riyadh development in the Saudi capital	Issuance of Sukuk in the value of $500 million in Mar 2018 and maturing in Apr 2023, listed on the Dubai NASDAQ
2017	Launching I Love Florence tower in Dubai as the first international project	
2013	Opening of Al Qasr Mall in Riyadh	
2007	Issuance of the first Sukuk in the value of $600 million in Feb 2007 and maturing in Mar 2010, listed on the Dubai NASDAQ	Listing of Dar Al Arakan on the Saudi Stock Exchange Tadawul
2005	Dar Al Arkan becomes a joint stock company by ministerial decree number 1021	
1994	Founded on 28 Dec 1994	

Capital

10,8

Billion Saudi Riyals

Assets

27

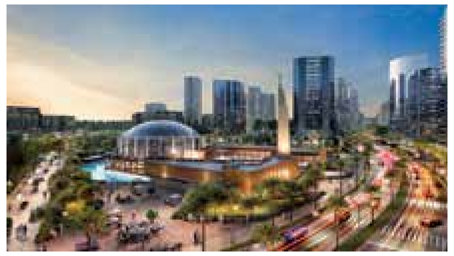
Billion Saudi Riyals

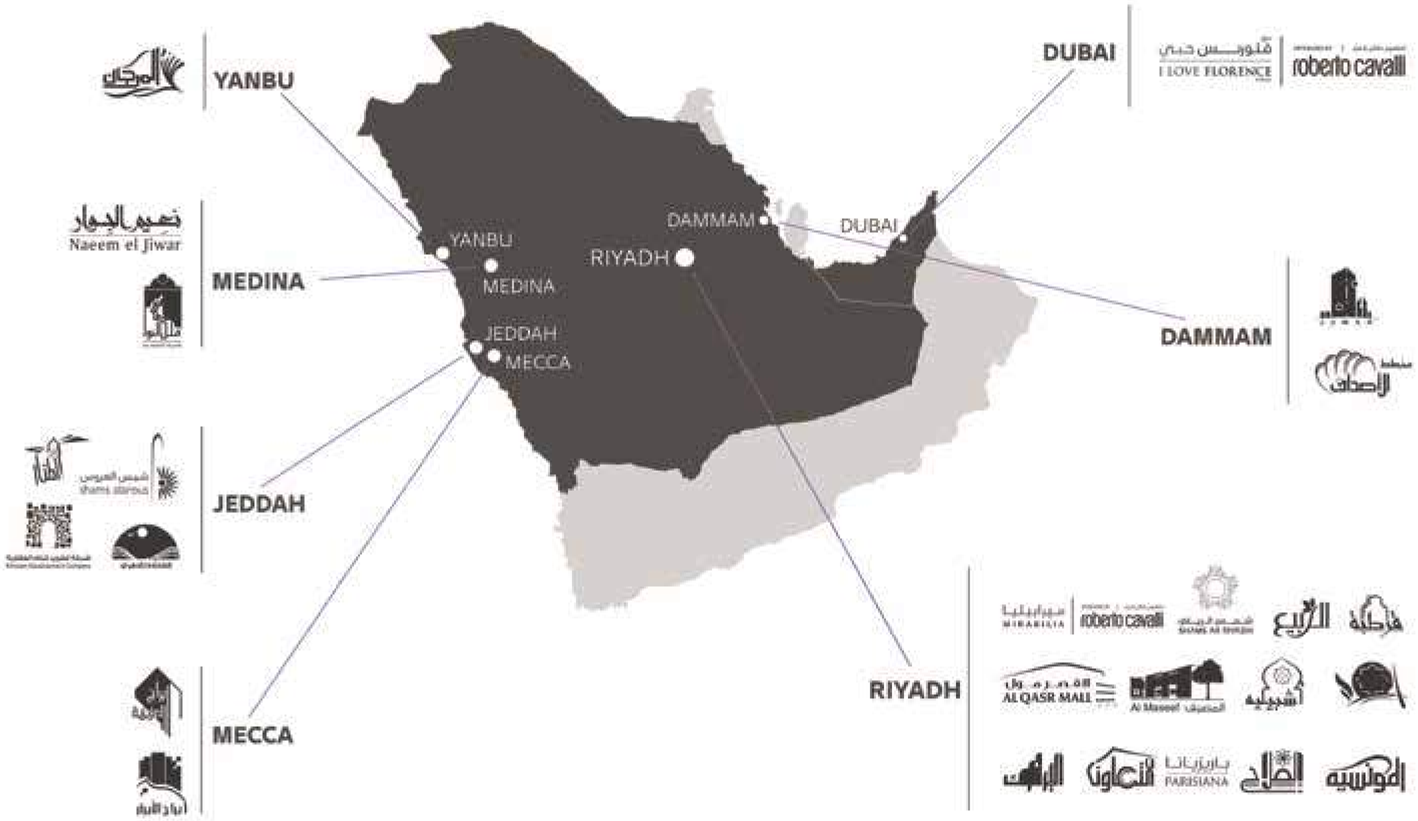
Investments in Lands and Properties

16

Billion Saudi Riyals







Message of the Chairman

> We continued to build liquidity on the balance sheet, in preparation for capital deployment, as the Saudi market rebounds from its recent slump. Having this flexibility will allow us to access attractive opportunities

Yousef Abdullah Al Shelash
Chairman

On behalf of the Board of directors, I am delighted to present Dar Al-Arkan's Board of Directors (BoD) Annual Report, for the year ending 31st December 2018.

Dar Al Arkan exceeded expectations in 2018 and demonstrated that the change in strategy is real and is already yielding results. The 35% growth in our top line is a testament to our ability to execute even in the toughest market conditions. Perhaps, even more important is how it confirms the validity and far sightedness of our acquisition strategy, with our edge of town parcels benefiting not only from urban expansion but also from growing demand for plots outside the White Land Tax catchment area.

In 2018, we forged ahead with more developments. Our flagship project in the Kingdom, Shams Ar Riyadh, was launched in May to a great reception. The first phase of the project, Mirabilia, with interior designs by Roberto Cavalli, the eponymous luxury brand, delivered very encouraging sales levels, which bodes very well for further phases planned for launch in the coming year.

Our Dubai project launched at the very end of 2017, a luxury residential tower on the Dubai Canal, and our first international venture, continued to perform, even in the face of softening market conditions. Our strategy of leveraging our strong brand amongst Saudi investors and our superior distribution reach with the largest direct sales force in the Kingdom, was successful, delivering 70% of sales to Saudis from our home market.

In 2018, we continued to explore international opportunities, always following the principle of targeting markets that are already attractive to Saudi investors. In that light, we acquired our first plot in Bosnia with minimal financial exposure. Our approach remains very conservative as we learn and adapt to local market conditions and design products that are attractive to our Saudi investors.

Dar Al Arkan is always anchored in prudent and conservative financial management. A milestone for 2018 was the successful issuance of a public $500M Islamic Sukuk that was oversubscribed by our trusted investors. With over a decade's relationship with the global debt capital markets, we are very proud of being a pioneering Saudi corporate in this universe and of the trust credit investors have in our stewardship of their capital.

Furthermore, we continued to build liquidity on the balance sheet, in preparation for capital deployment, as the Saudi market rebounds from its recent slump. Having this flexibility will allow us to access attractive opportunities and will position us as a partner of choice for private and government entities in search of development knowhow. We also increased our investment in land, as down markets represent attractive entry points and medium to long-term price appreciation opportunities.

The new management team has been instrumental in reshaping the organization. We designed our ongoing restructuring program to further build our capabilities and improve our competitiveness across market cycles.

In 2018, we announced to the markets our intention to list our leasing assets, at the heart of which sits Al Qasr Mall, as a separate public entity. This process is ongoing with the advisors and the regulator and we expect it to be complete in the coming year.

At Dar Al Arkan we aspire to be the premier real estate developer in the Kingdom. The real estate sector is a major contributor to the economy, and guided by the Saudi Vision 2030, our solutions aim to play an integral role to help enhance the economy and to keep pace with the ongoing societal trends and needs.

In 2018, we distributed SAR 540 million in dividends for 2017 results. An initiative to reward our investors who stood by us, and we take this opportunity to thank them for their continued support.

Turning to 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 our gratitude for Dar Al Arkan's management and most importantly the entire staff for their hard work. It is only through their exceptional work ethic and dedication that we can deliver superior results.

2018 has been another stellar year in the storied history of our company. Yet again, we have, demonstrated our ability to deliver results against the toughest of obstacles. As we look forward, with optimism, to the years ahead, we remain steadfast in our ambitions and confident in our ability to generate superior shareholder value.

Strategic Review

Message of the CEO

> Although, the real estate market was tough again in 2018, but we are hopeful that the worse is behind us.

Kelvin Kwok Han Sim
CEO

Dar Al Arkan, as the largest publically quoted Saudi real estate developer has a leading role in understanding and implementing the transformation taking place in the Saudi real estate market.

With a national footprint and past and future projects in most urban centers in the Kingdom, we are deeply engaged in the process of identifying the societal trends that will influence the real estate development sector for years to come.

In 2018 we reignited our development engine in the Kingdom. Dar Al Arkan, a name synonymous with Land development in recent time is reclaiming its rightful place as a leader in new concepts of community living and master plan development, with Shams Ar Riyadh our flagship project offering design and product concepts that cater to the new Saudi homeowner and investor.

Inspired by the Vision 2030 principles, we embarked on an important revitalizing program by building capabilities that will allow us to answer the future challenges to face the business.

Today we are proud to announce that in 2018 we achieved over 55% Saudisation of our work force, and remain on the lookout for Saudi talent to occupy critical positions.

Furthermore, we have proactively invested in our female workforce and we launched a women's empowerment program to identify and promote Saudi female talent. With over 34% of our work force female, we aspire to be leaders in female recruitment and an employer of choice for Saudi women.

The road to success is paved with a meticulous attention to detail. We are continuously updating our operational processes and policies to maintain our competitive edge. The state of the art ERP system and corresponding management-reporting modules, will allow us to better monitor and control operations, cut bureaucracy and most importantly make more informed business decisions.

A large part of our competitive edge comes from our direct route to market. Our sales organization is the envy of any developer in the Kingdom. 120 sales people strong, we are by far the largest direct sales organization in Saudi. An innovative marketing team able to reach our clients across multiple channels and guaranteeing industry leading customer service levels supports our Sales effort.

Investment in our people and processes has not come at the expense of profitability. 2018 was a strong year in terms of financial performance and our conservatism is not only visible in our overall liquidity levels but importantly in how closely we manage our costs. Our ambitious investment decisions are always anchored in very rigorous business planning.

Although, the real estate market was tough again in 2018, but we are hopeful that the worse is behind us. We are well positioned today to take advantage of the next upcycle. Understanding the emerging trends, innovating in product, superior customer service and financial muscle are the recipe for success.

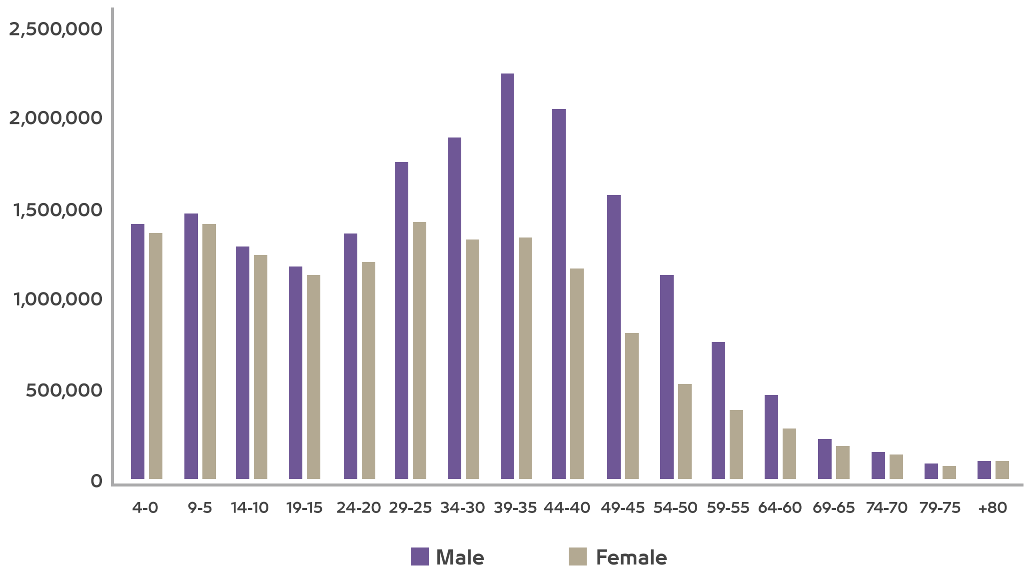
Our Markets

The Saudi market represents a secular growth opportunity for real estate development. The drivers of growth are anchored in 4 pillars:

- Positive demographic trends
- Relatively low home ownership penetration
- Structural supply deficit
- Government focus and support

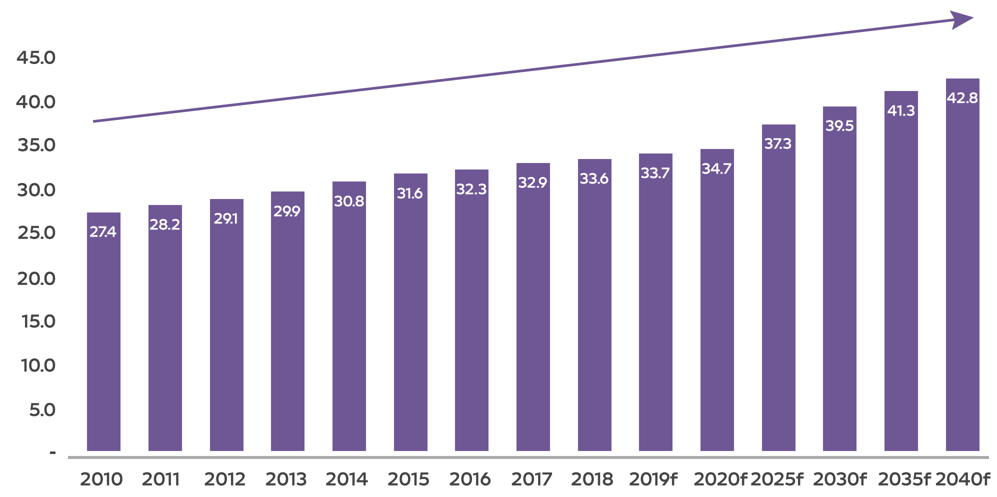
A young and growing population with over 60% below the age of 30 and a total population expected to reach 35.5 million by 2025. The evolving labour mobility and societal norms are increasing demand for housing stock for young professionals and newly formed families.

Population (Age/Gender)



Source: General Authority of statistics (2018)

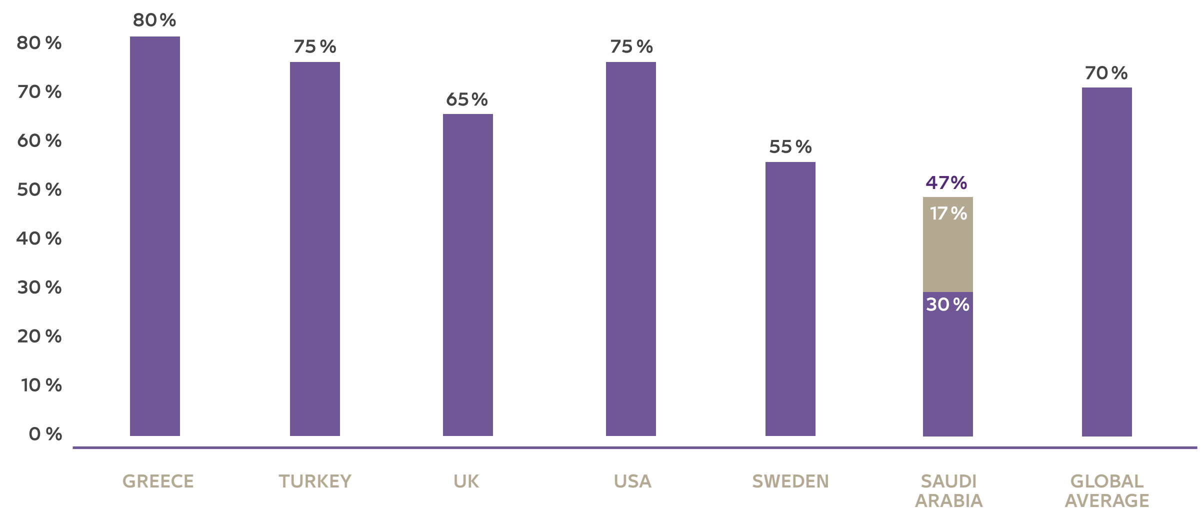
Population (mn)



Source: www.worldometers.inf

Current Home ownership penetration is at 47% for Saudis a relatively low penetration compared to countries with similarly sized economies. As Saudis pursue home ownership, the demand for housing units will expand.

Current Home ownership



Source: NCB

* 47% represent Saudi national only, 30% represent the ratio taking into account the full population including expatriates and nationals

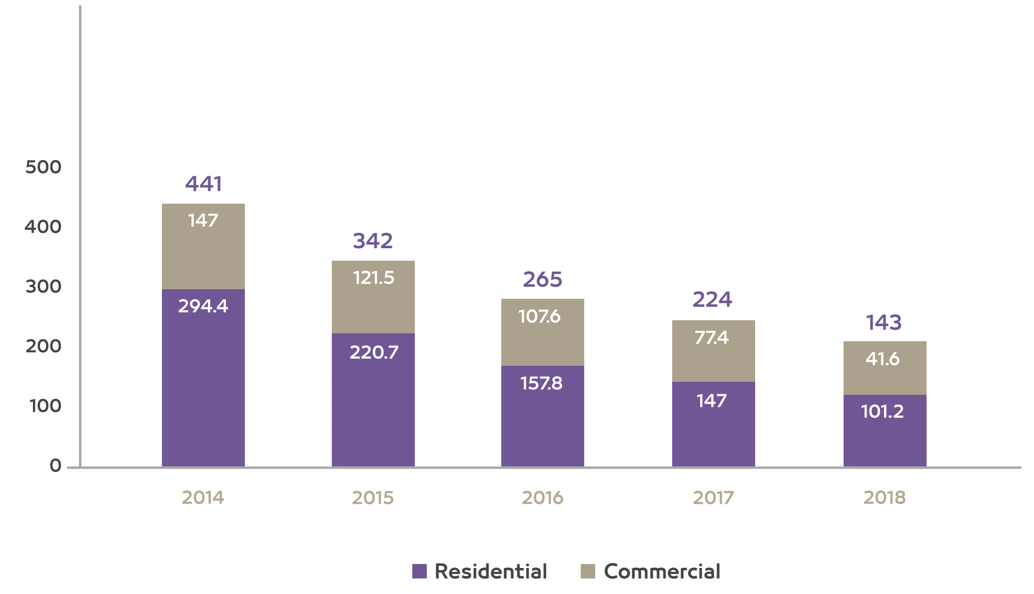
The housing market in Saudi has gone through a phase of anemic supply, expanding the gap between underlying demand for housing and available supply. Hence, the waiting lists at the ministry of housing have reached 15 years and are updated frequently as per the ministry initiatives.

However, the Government through its Ministry of housing 2020 strategic objectives as well as its 2030 Vision program, which has Housing as one of the pillars, is actively supporting the sector. The regulatory framework for both facilitating development permitting as well as introducing new structures like Off-Plan selling are improving the operating environment for developers.

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

Source: Saudi Arabia NTP 2020

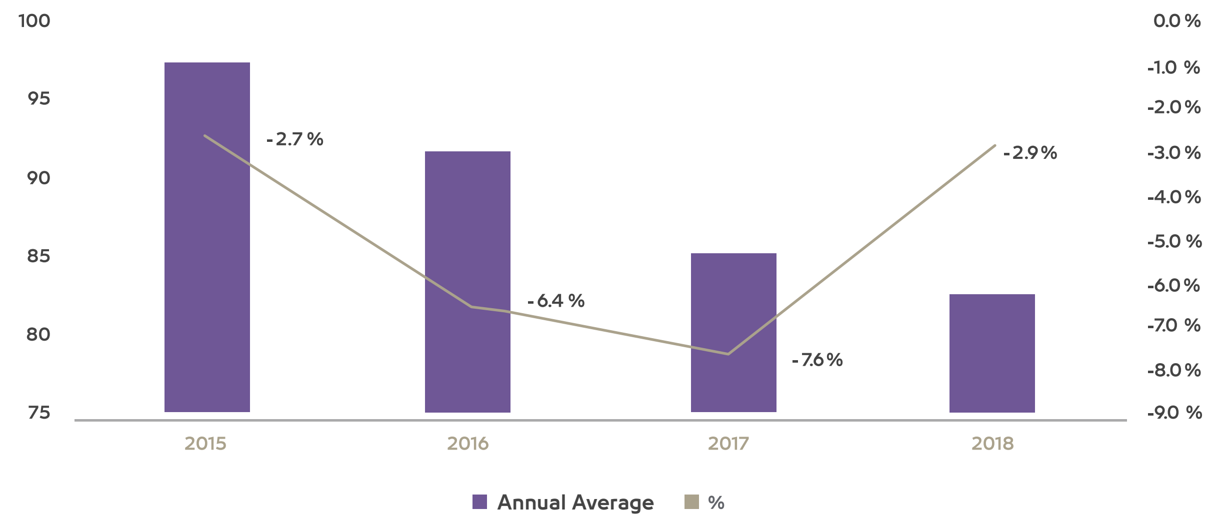
Value of Real Estate Transactions in KSA (SAR bn)



Source: Ministry of Justice

Against this long-term positive trend, 2018 was again a tough year in the current cyclical downturn. Total values and volumes of transactions continued to shrink and real estate prices dropped for the 4th year a row.

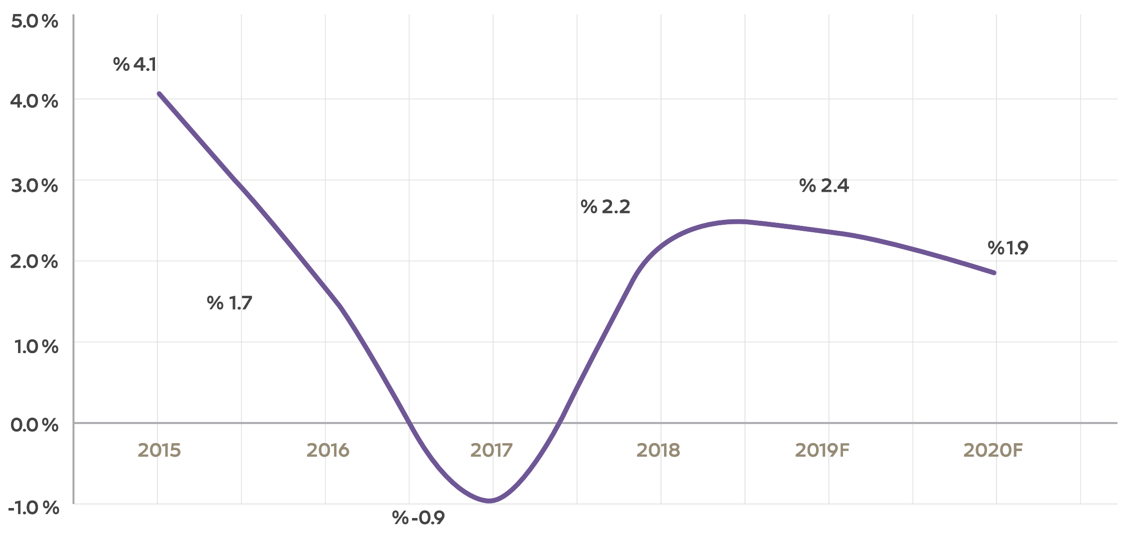
KSA Real Estate price index



Source: General Authority of statistics

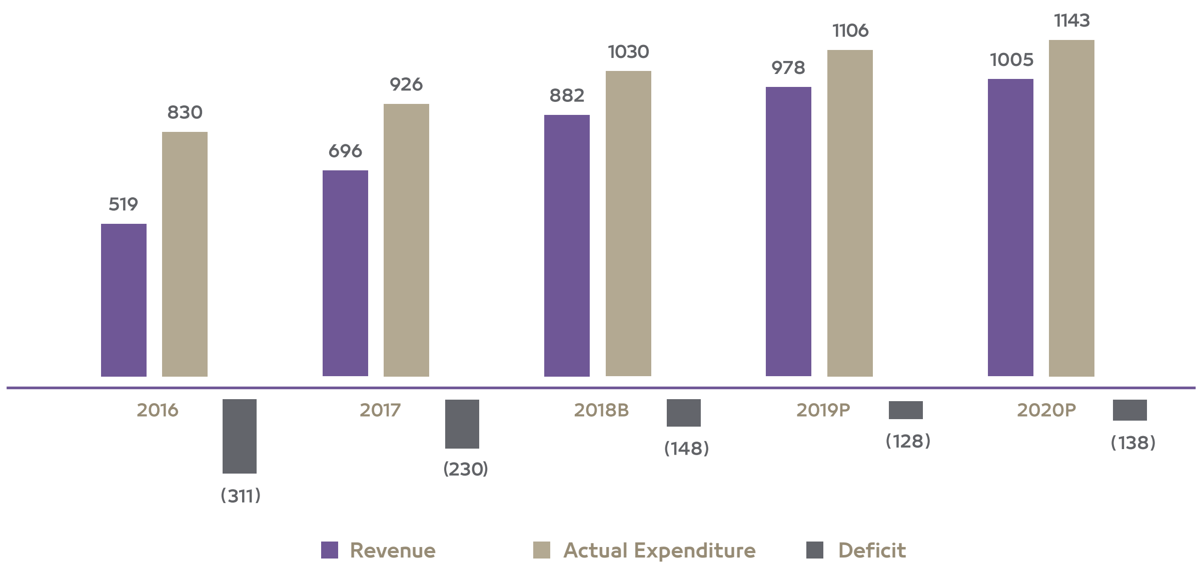
The real estate market remains in the grips of a cyclical crunch following the Oil price correction in the fourth quarter of 2014, which drove large government budget deficit and structural economic and fiscal reforms. This market weakness was compounded by a dearth of access to home financing and an underdeveloped mortgage market.

GDP Growth



Source: www.statista.com

Fiscal Performance (SAR Bn)



Source: MoF

In 2018 the Oil price climbed back above $60 for most of the year, which reduced the deficit and allowed the government to announce a record budget for 2019. Increased economic activity coupled with improved liquidity in the housing credit market should result in a return to growth in the real estate market.

Our Strategy

Vision

To be the Kingdom's premier and most trusted developer, delivering innovative real estate solutions for Saudis everywhere.

Mission

To create living communities and commercial environments that deliver on the evolving aspirations of the Saudi society while maximizing shareholder returns.

Corporate Strategic Pillars

Our focus is to serve our Saudi clientele at home and abroad

- Dar Al Arkan aims to be the real estate partner of choice for Saudi investors, be it for their primary residence in the Kingdom, or further afield as they seek second homes or attractive investment returns.

Innovation is at the core of our identity

- In Product, delivering aspirational living environments.

- In Distribution, applying cutting edge marketing tactics.

- In Structures, providing comprehensive financial solutions.

Activate and monetise our substantial investment in land to generate superior returns

- Dar Al Arkan has an enviable investment in land portfolio.

- We aim to leverage and maximize our return across our portfolio.

Maintain a disciplined and efficient capital structure supported by excellent relationships with the debt capital markets

- A conservatively run Balance Sheet with emphasis on liquidity and flexibility.

- Dar Al Arkan has pioneered the corporate debt capital markets in Saudi and continue its partnership with global Sukuk investors to support access to growth capital.

Maximise shareholder value

- As a leading publically listed company on the Saudi Stock Exchange, Dar Al Arkan strives to deliver superior returns to its shareholders, while not losing sight of stakeholders at large.

Attract and retain top talent

- Nothing can be achieved without the work ethic and dedication of our loyal employees.

- We are strong believers in the value of the human capital for the development of both Dar al Arkan and Saudi.

- We are supportive of female inclusion in the work force and are proud of our track record.

- We offer career progression and training opportunities to our employees.

Our Operating Model

Dar Al Arkan operates across the real estate value chain, leveraging a long history and deep experience in the Saudi market.

Development portfolio	Investment in Land portfolio	Property Management and Leasing portfolio
- Acquire or earmark plots for development. **Design:** Concept, master plan and detailed. **Sell:** Direct sales force as well as agency sales to deliver an off-plan sales model. **Build:** Project manage contractors with emphasis on cost control and quality standards.	- Acquire large strategic investments with a long term vision of the direction and trends of Urban development in key cities. - Create value to such investment through infrastructure works and master planning before farming out to brokers and smaller developers.	*One of significant and steadily growing division of the company is asset management which consist of Al Qasr Mall; flagship retail project, Parisiana residential community and Al Azizia Towers. The main objectives of asset management are as follows:* - Consistent tenant acquisition to ensure a unique customer experience in Al Qasr Mall and other retail assets. - To ensure balanced and quality tenant mix across our residential products. - To ensure preventive and timely maintenance to up keep the state of the art, style and appearance of our properties.

Residential and Commercial Development

Dar Al-Arkan is a leader in the development of integrated master plan communities delivering mixed-use, residential, commercial and retail developments.

Shams Ar Riyadh project

Strategically located in the growing northwest of Riyadh and overlooking the picturesque Wadi Hanifa. Shams Ar Riyadh is one of the largest mixed-use development projects ever initiated in the Kingdom. Initial footprint comprised a total area of approximately five million square meters divided into five zones. After selling zone 2 which is estimated of 1.8 million square meters to SABIC for their employee housing, Dar Al Arkan is currently developing the remaining 4 zones, an area over 3.2 million square meters.

Shams Ar Riyadh targets the growing and underserved middle to upper segments of the market. The project offers complete integrated living including residential, commercial, hospitality, entertainment, sporting, health care and educational components. The master plan paid particular attention to creating a harmonious interaction with the Wadi, bringing magnificent panoramic views and many public paths to enjoy this unique location.

In 2018, Shams Ar Riyadh zone 4B (Mirabilia) was launched, including 218 villa and mansion plots, in collaboration with Roberto Cavalli for interior designs. Selling directly off-plan to end buyers, under the WAFI program, this phase is already over 50% sold.

The project’s infrastructure works are ongoing and the launch pipeline for the remaining zones is in progress.

INTERIORS BY

roberto cavalli

I love Florence, UAE

Dar Al-Arkan launched I Love Florence Tower (ILFT), its first international real estate development project, in December 2017. With a Gross Development Value of SAR 817 million (USD 218 million), the ILF Tower, comprises bespoke apartments with luxury interiors designed by Roberto Cavalli, with water views and access on the Dubai Canal, with easy proximity to major attractions.

In 2018, off-plan sales were launched in Saudi, with encouraging results delivering 70% of total sales to Saudi investors in our home market as of end 2018.

Excavation and foundation work has been completed and Dar Al Arkan in process of appointing a contractor to start construction in the next stage.

Shams Al-Arous

Shams Al-Arous is a master-planned community project strategically located east of downtown Jeddah, on the extension of Palestine Road, a 5 lane highway and a major commercial artery in Jeddah.

The total area under development is 862,641 sqm and the project comprises a number of low-rise apartment blocks (G+4) divided into 4 zones and complete with a retail strip to offer amenities and serve the community.

In 2018, infrastructure and revised planning works were undertaken in preparation for launching off-plan sales in 2019.

Naeem Aljiwar

Naeem Aljiwar, a development located in southwest Medina, within the Alharam zone boundaries. The project is on a total land area of 2.2 million square meters. The project planning is complete and divided into plots. The company had finished the construction of 499 villas in the project and in the process of selling the remaining.

Naeem Aljiwar Project	
project total land area	
2.2	499
million square meters	Villas

Parisiana Community

Parisiana (previously named AlQasr) is Dar Al Arkan's biggest planned and built 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.

The project is comprised of approximately 3,500 units including apartments, villas, retail and office designated for either sales or leasing. the Parisiana Community is a leading example of master-planned communities in the Kingdom. Families enjoy the spacious urban design, parks, schools, and shops.

In 2018, a portion among the residential apartments were made available to families who qualified under the Ministry of Housing Sakani program, sales of these units is ongoing.

Juman

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 mixed-use master-planned community including residential, hospitality, retail with a regional mall, offices, healthcare, entertainment, sporting and educational components.

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. Discussions continue with various authorities including Ministry of Municipal and Rural Affairs (MoMRA) and Dammam Amana to obtain their feedback and guidance as we refine our designs and enter the final concept design phase.

Qasr Khozam

Khozam Real Estate Development Company "Khozam" is a Joint Venture limited liability company, between Jeddah Development and Urban Regeneration Company (49% equity owner) and Dar Al-Arkan Projects Company (51% equity owner a fully owned subsidiary of Dar Al Arkan) and headquartered in Jeddah.

The main purpose of the Company is to develop the Qasr Khozam area and surrounding neighborhoods and is considered 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.

Property Management and Leasing

Overview

The year 2018 was the year of major refocusing on our leasing assets.

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

Guided by the Board's decision, we embarked on a major effort to streamline operations, revamp policies and processes, as well as recruit, and train key personnel.

Asset Management amounted to SAR 136 million and represented 2.11% of Group revenues as compared to SAR 150 million and 3.17 % of total revenues in 2017. This drop in revenues was mainly driven by a combination of rental market softness, realignment of few lease agreements to pave ways to acquire new tenants more suitable to the property portfolio.

The priority for 2018 has been to elevate Al Qasr Mall, the central asset at the heart of the leasing portfolio. A major success was attracting Majid Al Futaim Vox cinema Multiplex to the mall. Works commenced in the 4th quarter of 2018 and a 15 screen multiplex, the largest in Riyadh, is expected to open in February 2019. In addition to the Cinema Multiplex, Majid Al Futaim will also open their Bowling alley concept at the mall.

A number of promotional events and campaigns, together with partnerships with charitable organizations and community operators improved total traffic to the mall and its overall brand image.

The focus in 2019 will be to enhance current performance, generate efficiencies and aggressive marketing, leveraging the Cinema offering while improving our customer service proposition.

We look forward to 2019 being the year we see Dar Al Arkan Properties listed on the Saudi Stock Exchange.

Description of the portfolio of leasing assets

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, 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, Carrefour, 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, Nichi in Mark, Home Center and Al Homaidi.

Al Azizia Towers

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

Al Azizia Towers has a total of 5,841 square meters 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.

Parisiana

Parisiana leasing portfolio is part of Dar Al Arkan's biggest master planned and built AlQasr community in the Kingdom. Situated in Al-Swaidi district of Riyadh. The portfolio consisting of 815 residential units and its modern, spacious layout is addressing the housing needs of 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.

Human Capital

The Company's management focus is to attract and retain superior talents to face current and future challenges and to invest in human capital by providing further training and skills development. The total number of DAAR employees is 413, including 136 ladies who are working in several departments such as; Sales, Administration, Marketing, Human Resources, Legal, Customer Service & Support and IT.

Top Management Biographies

Kelvin Kwok Han Sim

CEO

Mr. Kelvin Kwok is the Chief Executive Officer of Dar Al Arkan since September 2018. Mr. Kwok holds a Master's degree in Business Administration from Cranfield University in the UK, and brings over 20 years of experience in the Saudi market. First as an investment banker with particular emphasis on real estate advisory, where he advised public entities on major infrastructure and public housing initiatives, as well as private entities on mix-use development projects. Previously Mr. Kwok was the CEO of Emaar Middle East in Saudi Arabia, where he supervised the execution and delivery of mega real estate projects ranging from residential to commercial complexes.

Jean Lahoud

COO

Mr. Lahoud joined Dar Al Arkan as Chief Operating Officer in June 2018. Mr. Lahoud was the COO of Emaar – King Abdullah Economic City for 6 years, where he oversaw its massive expansion into one of largest urban development schemes in the region. Before that he spent 14 years with Pepsico International, where he held multiple senior positions, last of which was the CFO for Middle East and Africa. Mr. Lahoud holds an MBA from the University of Denver and did his bachelor studies in Madrid, Spain.

Anand Raheja

CFO

Mr. Raheja has rejoined Dar Al Arkan as CFO in May 2018, in his second stint in the role after holding the position between 2011 and 2013. He has more than 30 years of experience working with the largest real estate companies and accounting & auditing firms in the Middle East, US, UK and India. Mr. Raheja holds a Master's degree in Finance from New York University.

Mohamed Galal

CEO-Property Management

Mr. Galal, is a pioneering global executive in retail management, and joined Dar Al Arkan in July 2018. As founder and CEO of TSM, he spent the last decade advising mall and retail operators in Egypt, France, Saudi, UAE and Erbil on innovative iconic developments and best practice implementation. Prior to that, he held many roles in commercial real estate development, most notably as country head in Egypt for Majed Al Futaim Group where he was instrumental in leading the expansion of Carrefour and City Centre Malls into the Egyptian market.

Lamiaa Al Refaee

Head of HR

Ms. Al Refaee joined Dar Al Arkan as the HR Director in November 2018. She has 18 years of experience, including 12 years in the Human Resources field. She led organizational development through designing and implementing human capital development strategies, resulting in improved work environment and superior employees' performance. Prior to joining Dar Al Arkan, Ms. Al Refaee held senior HR roles with Xenel Industries Company. She holds a Master's degree from Manchester University in Dubai.

Hazem Abdallah

Head of Investor Relations

Mr. Abdallah is the Head of Investor Relations at Dar Al Arkan since May 2018. An international senior executive with 26 years of experience in the UK and the GCC. Mr. Abdallah spent over 16 years in capital markets, the last four with particular emphasis on Investor Relations in the Real Estate development sector in the gulf having led the Investor Relations effort at DAMAC Properties in Dubai. Mr. Abdallah started his career with P&G in the UAE before moving to London to be a Strategy consultant with Monitor Deloitte, then building the European division of Sanford C Bernstein the US Equity Research house. Mr. Abdallah holds a BA in Economics from AUB and an MBA from INSEAD.

Abbas Fehri

Head of Development

Mr. Fehri has 17 years of experience on four continents, with wide-ranging experience spanning the full value chain of property development. Mr. Fehri joined Dar Al Arkan as Head of Development in September 2017, where he has been leading product design, development, and project management. Prior to joining Dar Al Arkan, Mr. Fehri held a number of positions on multimillion dollar projects spanning across several asset classes and geographic locations. Mr. Fehri holds a Master's degree in Project Management and a Master's degree in Architecture.

Joseph Al Kourani

Sr. GM Sales

Mr. Al Kourani joined Dar Al Arkan in July 2017 as the Senior General Manager of Sales. Mr. Al Kourani has more than 20 years of experience in the Sales field and sales channel development in various industries across 12 different countries. Prior to joining Dar Al Arkan, he worked for 14 years as the Sales Manager – GCC at Metlife Alico, followed by 6 years as Deputy Head of Sales at Damac Real Estate. Mr. Kourani holds a Bachelor's degree in Business Administration from Balamand University in Lebanon.

Assaad Najem

Director of International Operations

Mr. Najem has joined Dar Al Arkan as Director of International Operations in April 2017, and is responsible for overseeing the development of the international real estate portfolio. Prior to that he has held various financial, commercial and operational Senior positions in global and regional companies across the Middle-East and Africa. His career experience spans 20 years, including 13 years in Real Estate Development with Dubai Properties and Damac Properties. Mr. Najem holds a Bachelor's degree in Finance and is pursuing a Master's degree in Real Estate Management and Development at the Heriot-Watt University.

Mohammed Al Ghamdi

Government Affairs Director

Mr. Mohammed Al Ghamdi has been in charge of government affairs since 2016. His experience extends over 26 years, during which he has participated in many management and executive leadership positions in the public and private sectors. He is also a member of many executive committees in the fields of tourism, sports and real estate development. Mr. Al Ghamdi studied at the college of Sharia at Al-Imam University and the college of commerce, business administration department.

Human Resources Initiatives

The Organizational Transformation and Women Empowerment Program

In 2018, Human Resources Department of DAAR has started the organizational transformation process through attracting and hiring the most qualified Saudi employees as the Saudization percentage has reached 55% of the Company's total number of employees over the last year.

In light of striving to improve the work environment and the employees' performance level, and based on Saudi Vision 2030 objective to increase female participation in the workforce, the Human Resources Department has implemented the Women Empowerment program and through the continuous process of assessing skills and competencies for Dar Al Arkan employees, 34 ladies have been recognized with very high potential to be eligible for promotion in by 2019

Signing a training and employment cooperation agreement with Saudi Real Estate Institute

Dar Al Arkan signed a cooperation agreement in the fields of training and employment with the Saudi Real Estate Institute, which aims to foster cooperation in the fields of training and skills development for Dar Al Arkan employees. This will include tailor making specific program for Dar Al Arkan employees, as well as sponsoring training courses offered by the institute which will increase the employable pool of individuals qualified to work in the real estate sector.

Sales & Marketing highlights

Launch of Skyscraper on Dubai Canal with Interiors by Roberto Cavalli

Dar Al Arkan announced its plans to expand to global markets, selecting Dubai as the launch pad for its international business, with an AED 800 million development on the Dubai Water Canal in the Business Bay area. Dar Al Arkan has partnered with the luxury brand, Roberto Cavalli, to design the interiors of the iconic 34-storey waterfront skyscraper.

A ceremony was organized in Dubai in December 2017 to launch Dar Al Arkan's international expansion and its high profile collaboration with Italy's topmost luxury fashion brand. The event was attended by Yousef Abdullah Al Shelash, Chairman of Dar Al Arkan, Gian Giacomo Ferraris, CEO of Roberto Cavalli Group, in addition to a number of government officials, diplomats, dignitaries and investors.

Dar Al Arkan launch Mirabilia Villas in Shams Ar Riyadh

Dar Al Arkan announced the launch of the SAR 600 million Mirabilia upscale residential villas with interiors by Italian fashion house Roberto Cavalli, in Shams Ar Riyadh Development. A ceremony was organized in Riyadh in May 2018 to launch this high-profile development and partnership with Italy's topmost luxury fashion brand. The event was attended by Yousef Abdullah Al Shelash, Chairman of Dar Al Arkan, Gian Giacomo Ferraris, CEO of Roberto Cavalli Group, who flew in to Riyadh especially for the occasion, in addition to a number of government officials, diplomats, dignitaries and investors.

Dar Al Arkan›s new sales offices launch in Riyadh and Dubai

Dar Al Arkan has opened 3 new sales offices in Al Qasr Mall Riyadh, in Shams Ar Riyadh project site and in Dubai to provide more accessible sales services to customers and to enhance customer service. This forms part of its strategic plan to grow its direct sales force and an opportunity to show case its premium projects.

Marketing residential program SAKANI agreement with the Ministry of Housing

Dar Al Arkan has signed an agreement with the Ministry of Housing (Residential Program) whereby it will provide ready to move housing units for Ministry of Housing Program Beneficiaries in the "Parisiana Riyadh" project. This agreement is intended to provide high quality ready to move units in different areas and various options for applicable beneficiaries of the Ministry of Housing.

Organizing more than 50 event activities inside and outside the Kingdom

Dar Al Arkan has organized more than 50 event activities inside and outside the Kingdom to promote its various real estate projects from villas to apartments. These events have been very successful in attracting many customers interested in the company's projects.

Contributions and sponsorships of Dar Al Arkan in 2018

Over the course of 2018, Dar Al Arkan proudly contributed to and sponsored 5 events and exhibitions in Riyadh, including being a Diamond Sponsor of RESTATEX in April 2018 and a strategic sponsor for the Euromoney conference in May 2018. Dar Al Arkan is committed to continuously participating in and supporting Saudi based events to highlight our product portfolio and offering to Saudi homeowners and investors.

During 2018, the company participated in the following:

- The Exhibition "your House is Ready" for real estate investors
- Diamond sponsor of Riyadh real estate exhibition 2018
- Euromoney Saudi Conference 2018
- Housing Finance Conference in Saudi
- Wafi Forum and exhibition for off-plan sale projects (Wafiex 2018)

Information systems

Dar Al Arkan IT system are built to comply with international best practices, establishing effective internal controls that produce accurate and transparent information to allow management to make informed decisions.

Dar Al Arkan continuously invest in its IT infrastructure to promote access, connectivity, security and operational application support. 2018 saw the implementation of new archival backup and recovery solutions as well as the deployment of new sales and leasing modules. Furthermore, a full security audit was conducted with a third party and risks assessed and remedied.

Financial Review

Message of the CFO

> The company ended 2018 with SAR 4.9 billion in cash and cash equivalents on the balance sheet resulting in an increase of SAR 1.8 billion over the previous year.

Anand Raheja
Chief Financial Officer

Dar Al Arkan's ability to deliver innovative real estate solutions and large scale master-planned communities is supported by robust financial management. With operations spanning the real estate value chain, be it basic infrastructure development for undeveloped land, mixed-use residential and commercial master planned developments or property management and leasing; Dar Al Arkan must be able to operate across these various environments with varying funding needs.

2018 was a year of transformation for our business, and in particular for our financial position. Dar Al Arkan was successful financially, maintaining adequate and cost effective access to funds, as well as managing its financial risks and exposures within the parameters set by the board of directors.

Saudi Arabia continued to undergo substantial changes in its macroeconomic, fiscal and policy outlook. With demographic realities driving social evolution and new government programs being launched to support this new reality, we expect a fair amount of uncertainty going forward.

The real estate market has not been immune to those changes, and 2018 proved to be another challenging year in terms of transactions volumes and values. In addition, the Dubai real estate market where we launched our first development outside Saudi, started going through a cyclical correction, heralding higher levels of competition and promotional activity as well as a lengthening of the purchase cycle.

Guided by our very experienced board of directors, we continued to create Increased liquidity on our balance sheet, creating ample capacity to deploy capital as and when we gain more conviction on emerging market trends. 2018 has certainly ended on a more positive note and we were successful in partly replenishing our investment in land with transactions totaling SAR 3.3 billion. The company ended 2018 with SAR 4.9 billion in cash and cash equivalents on the balance sheet resulting in an increase of SAR 1.8 billion over the previous year.

Dar Al Arkan's funding strategy has always been guided by matching its projects investment cycle of three or five years with the maturity profile of its funding. The company continues to enjoy an excellent relationship with the global debt capital markets and 2018 witnessed the issuance of the 9th Sukuk since 2007. The Company raised SAR 1.88 billion in an oversubscribed Sukuk issue maturing in 2023. In parallel, the company successfully retired its 2018 issue of SAR 1.69 billion. Moreover, Dar Al Arkan continues to diversify its funding sources with local and regional facilities amounting to 21% of its total debt.

With a healthy balance sheet and a more optimistic outlook for 2019 and the years ahead, Dar Al Arkan is strongly positioned to maintain its leadership position of the Saudi real estate sector.

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 (KSA), 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.

The company's subsidiaries

Company Name	Capital (SAR)	Principal Activity	Country of Incorporation	Ownership %	Commercial Registration	Entity Type
Dar Al-Arkan Properties(Real Estate) Company	500,000	Development and acquisition of the commercial and residential properties. Management, operations and maintenance of residential and commercial buildings and public facilities	Kingdom Of Saudi Arabia	100%	1010254063	Limited Liability Company
Dar Al-Arkan Projects Company	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 Commercial Investment Company	500,000	Purchase and acquisition, lease of real estate investments	Kingdom Of Saudi Arabia	100%	1010247585	Limited Liability Company
Dar Al-Arkan Sukuk Company	500,000	Real estate investment and development	Kingdom Of Saudi Arabia	100%	1010256421	Limited Liability Company
Sukuk Al-Arkan Company	500,000	Management, maintenance and development of real estate and purchase of land and general contracting	Kingdom Of Saudi Arabia	100%	1010274407	Limited Liability Company
Thawabit Investment Company	500,000	Real Estate investments and development	Kingdom Of Saudi Arabia	100%	1010275449	Limited Liability Company
Dar Sukuk International Company	500,000	Real Estate investments and development	Kingdom Of Saudi Arabia	100%	1010275448	Limited Liability Company
Dar Al-Arkan Real Estate Investment Company	100,000	Real Estate investments and developments, leasing and property management	Kingdom Of Saudi Arabia	100%	1010521509	Limited Liability Company

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

Company Name	Capital (SAR)	Principal Activity	Country of Incorporation	Ownership %	Commercial Registration	Entity Type
Khozam Real Estate Development Company	540,287,280	Real estate development (development of Qasr (Khozam Project	Kingdom Of Saudi Arabia	51%	4030193909	Limited Liability Company
Alkhair Capital	300,000,000	Undertaking underwriting, management, arrangement and financial advisory services (Except for the implementation of marginal (deals	Kingdom Of Saudi Arabia	34%	1010264915	Closed Joint Stock Company

Description of company's activities and contribution to revenues

Most of the Company's operations are carried out within the Kingdom of Saudi Arabia. I Love Florence Tower (ILFT) is the Company's flagship project outside KSA located in Dubai. During the year, the Company did not recognize revenue in its income statement from ILFT as of 31 December 2018 since it has not completed the milestone as per IFRS 15. Dar Al-Arkan operates as three distinct divisions, as follows:

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.
- **Investment in land:** it represents the share of company's investment in jointly owned properties.

During the fiscal year 2018 this division accounted for SAR 6,277 million, representing 97.89 % of the Company's total revenues, as compared to SAR 4,585 million, or 96.83% in 2017.

Off-plan sales of the properties in KSA and Dubai are in progress.

Property Management and Leasing

Property Management and Leasing is Dar Al-Arkan's second largest 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 2018, revenues generated in Asset Management amounted to SAR 136 million and represented 2.11% of Group revenues as compared to SAR 150 million and 3.17 % of total revenues in 2017.

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

Samba Capital and Latham & Watkins were appointed as financial advisers and lawyers for the planned offering. Dar Al Arkan Properties, 100% owned by Dar Al Arkan Real Estate Development Company, focuses on development and management of income-generating assets.

It is worth mentioning that discussions with the Capital Market Authority (CMA) are still in progress

Investments

These represent strategic investments in companies that the management believes are complementary to the Group's real estate development operations. During 2018, these investment activities were not significant to the Company's net profits as their contribution accounted for only 3.03% of Dar Al-Arkan's net profit.

During 2018, no other material elements impacted the Company's net income. However, the Company earned SAR 129.9 million representing 25.52% of net income as profit from short term Islamic Deposits.

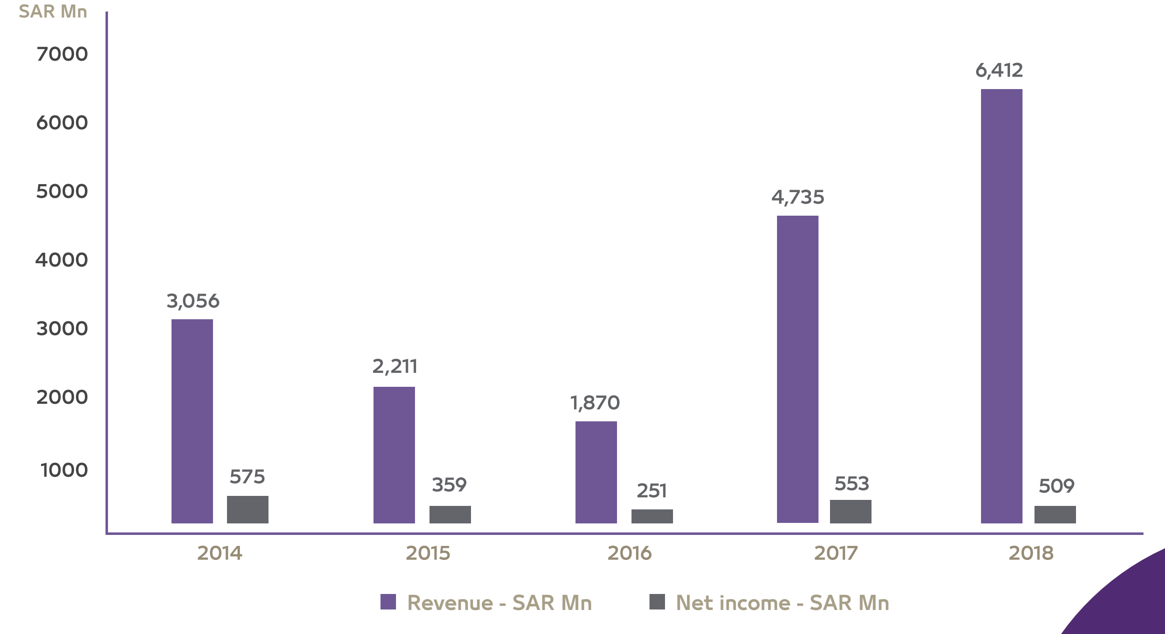
Financial Highlights

Income statement for the fiscal years 2014 to 2018

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

Item (in SAR 1000s)	2018	2017	2016	2015	2014
Revenues	6,412,265	4,734,682	1,870,229	2,211,349	3,056,060
Cost of revenue	(5,355,114)	(3,620,672)	(1,078,286)	(1,228,117)	(1,756,805)
Gross profit	1,057,151	1,114,010	791,943	983,232	1,299,255
Operating expenses	(168,942)	(162,002)	(160,028)	(207,831)	(241,276)
Net operating income	888,209	952,008	631,915	775,401	1,057,979
Financing expense	(511,652)	(441,523)	(385,984)	(420,794)	(531,359)
Net other Income	145,298	57,326	12,846	13,875	62,895
Net income before Zakat provisions	521,855	567,811	258,777	368,482	589,515
Zakat provisions	(13,046)	(14,443)	(7,943)	(9,325)	(14,820)
Net income	508,809	553,368	250,834	359,157	574,695
Earnings per share	0.47	0.51	0.23	0.33	0.53

Total revenue and net income changes from 2014 to 2018



The balance sheet for the fiscal years 2014 to 2018

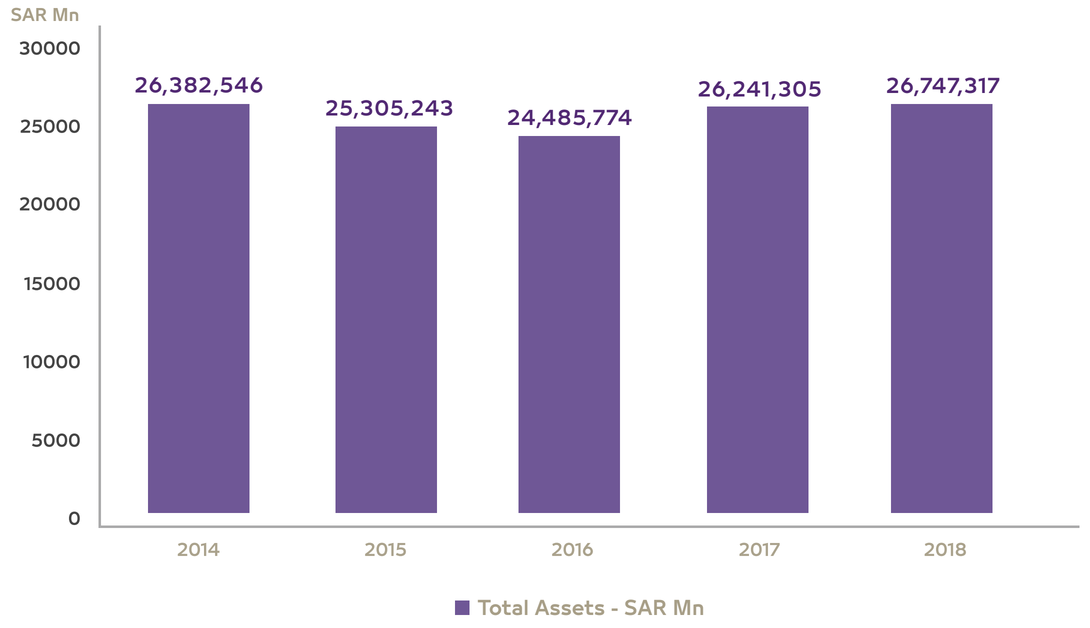
The following table illustrates the main balance sheet items for the last five years. This should be read in conjunction with the audited consolidated financial statements and accompanying notes.

Item (in SAR 1000s)	2018	2017	2016	2015	2014
Current Asset	9,993,697	7,315,666	3,482,391	4,361,742	5,668,959
Non-current Asset	16,670,535	18,854,714	20,937,252	20,875,085	20,642,308
Fixed Asset	83,085	70,925	66,131	68,416	71,279
Total Asset	26,747,317	26,241,305	24,485,774	25,305,243	26,382,546
Current Liabilities	3,291,806	2,765,460	1,392,210	2,596,980	3,337,922
Non-Current Liabilities	4,750,178	4,742,295	4,916,057	4,781,590	5,477,108
Total Liabilities	8,041,984	7,507,755	6,308,267	7,378,570	8,815,030
Capital	10,800,000	10,800,000	10,800,000	10,800,000	10,800,000
Statutory reserve	1,109,601	1,058,720	1,003,383	978,300	942,384
Retained earnings	6,795,732	6,874,830	6,374,124	6,148,373	5,825,132
Total shareholders' Equity*	18,705,333	18,733,550	18,177,507	17,926,673	17,567,516
Total Liabilities and Shareholders' Equity	26,747,317	26,241,305	24,485,774	25,305,243	26,382,546
Book value per share*	17.32	17.35	16.83	16.59	16.27

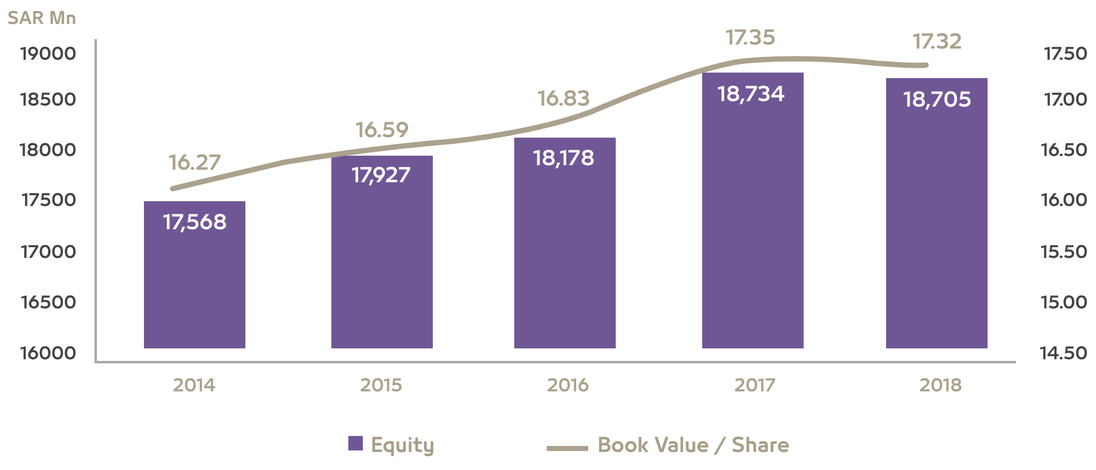
* Book value per share is calculated by dividing the total shareholders' equity by total number of outstanding shares at the end of each fiscal year.

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 2014 to 2018



Shareholders' equity and share book value changes from 2014 to 2018



Geographical analysis of Company Revenue for the year 2018

Location (in SAR 1000s)	Development properties	Lease	Residential developments	Total
Western region	-	30,128	9,919	40,047
Central Region	-	105,650	14,911	120,561
Eastern	-	-	-	-
Investment	6,251,657	-	-	6,251,657
Total	6,251,657	135,778	24,830	6,412,265

The Company relies on diversification of its revenue from leasing of properties, sale of investments in lands and properties within and outside of Kingdome of Saudi Arabia. It is important to note that significant portion of revenue derives from the sale of investment, which are not geographically based investments.

Results of operations

The following table compares the results of operations for 2018 and 2017:

Item (in SAR 1000s)	2018	2017	Change	**Change %**
Revenues	6,412,265	4,734,682	1,677,583	**35.43%**
Cost of revenue	(5,355,114)	(3,620,672)	1,734,442	**47.90%**
Gross Profit	1,057,151	1,114,010	(56,859)	**-5.10%**
Operating expenses	(168,942)	(162,002)	6,940	**4.28%**
Net operating income	888,209	952,008	(63,799)	**-6.70%**
Financing expense	(511,652)	(441,523)	70,129	**15.88%**
Net other Income	145,298	57,326	87,972	**153.46%**
Net Income before Zakat provisions	521,855	567,811	(45,956)	**-8.09%**
Zakat provision	(13,046)	(14,443)	(1,397)	**-9.67%**
Net income	508,809	553,368	(44,559)	**-8.05%**
Earnings Per Share	0.47	0.51	(0.04)	**-7.84%**

Revenues

Total revenues were SAR 6,412 million in 2018, compared to SAR 4,735 million in 2017, representing an increase of 35.43%. The increase is mainly due to the increase in development property sales worth 6,251 million against 4,563 million in 2017 as well as sale of residential properties of SAR 25 million against SAR 21 million in 2017.

Rental revenues decreased by 9.51% to reach SAR 136 million during 2018 compared to SAR 150 million in 2017. This drop in revenues was mainly driven by a combination of rental market softness, realignment of few lease agreements to pave ways to acquire new tenants more suitable to the property portfolio.

Cost of Revenue

Cost of revenue accounted for SAR 5,355 million in 2018 representing 83.51% of total revenues compared to SAR 3,621 million in 2017 representing 76.47% of total revenues. The increase is mainly due to higher property sales, and the lower gross margins earned in property sales revenue in 2018 compared to 2017.

Selling and general administrative expenses

Selling and general administrative expenses were SAR 169 million in 2018 compared to SAR 162 million in 2017, representing a marginal increase of 4.28%. The increase is primarily due to increase in depreciation and marketing activities.

Financing charges

Net financing charges were SAR 512 million in 2018 as compared to SAR 442 million in 2017, representing an increase of 15.88% amounting to SAR 70 million. This increase is primarily attributable to the issuance of new sukuk of SAR 1.88 billion (US$ 500 million) in March 2018.

Net other income

Net other income was SAR 145 million in 2018 compared to SAR 57 million in 2017. The increase is primarily due to profit earned on the higher cash balance maintained in Islamic Murabaha deposits during 2018.

Net income

Net income in 2018 was SAR 509 million compared to SAR 553 million in 2017. Earnings per share were SAR 0.47 in 2018 as compared to SAR 0.51 in 2017. In conclusion, the decrease in net income was driven by lower gross margins on land and property sales in spite of increase in total sales volume.

Liquidity and capital resources

As of 31 December 2018, the Company had cash and cash equivalents of SAR 4,903 million as compared to SAR 3,160 million as at 31 December 2017.

Cash flow

The following table sets out the Company's cash flows for the financial periods 2016 to 2018:

(millions SAR)	2018	2017	2016
Funds from Operating Activities	2,160	1,437	691
Funds (used in)/ from Investing Activities	(21)	(10)	-
Funds from/ (used in) Financing Activities	(396)	1,151	(1,110)

Net cash flow from operations generated SAR 2,160 million in 2018 compared to SAR 1,437 million in 2017. The increase is mostly related to cash from the sale of development properties in 2018.
Additional investment in properties and equipment's have primarily led to an overall outflow of cash in investing activities of SAR 21 million in 2018 as compared to SAR 10 million in 2017.
The cash outflow from financing activities of SAR 396 million was primarily due to payment of dividend of SAR 540 million during the year.

Projects and Investment Expenditures

The Company's priorities for expenditure on projects include building integrated residential developments and developing of existing lands. During 2018, the Company spent SAR 3,381 million primarily on investment in land, development of lands and properties.

Debt Program

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 Shariah-compliant Sukuks. Since 2007 the company has issued nine Sukuks.

Total funds raised from Sukuk amounted to SAR 16.50 billion, SAR 11.25 billion of which has already been repaid at the end of 2018, whereas the remaining SAR 5.25 billion maturity is spread till 2023. 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 2018 was SAR 1.4 billion.

The ratio of Islamic Sukuks to total financing amount at the end of 2018 was approximately 79%, whereas the Murabahas and Ijaras with local and regional banks were 21%. 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, the company started selling off-plan 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.

Indebtedness

All financing taken by the Company is Shariah-compliant and follow the structures of Ijarah and Murabaha transaction. Below is a description of the repayments and outstanding debts at the end of 2018.

Indebtedness details & decrease in financing at the end of 2018

During 2018, the Company raised new Sukuk financing of SAR 1.88 billion. The Company repurchased SAR 381 million of the fifth Sukuk amounting to SAR 1.69 billion and successfully repaid the balance of SAR 1.31 billion on its maturity in May 2018. It also repaid some of the local bilateral Murabaha facilities amounting to SAR 347 million.

Indebtedness details at end of 2018

Facilities SAR millions	Settlement	Original Amount	Starting Date	Opening Balance	Paid During 2018	Closing Balance	Maturity
Murabaha: Local - Bank Muscat	Quarterly settlement	175	26-Mar-15	130	17	113	30-Sep-22
Murabaha: Local - Bank Muscat	Bullet	400	14-Dec-16	400	-	400	14-May-23
Murabaha: Local - Bank Alinma	Quarterly settlement from Q2 2016	300	11-Jun-15	272	15	257	31-May-27
Ijarah: International Banks	Quarterly settlement	1,427	11-Jul-15	958	315	643	31-Jul-20
Gross Total		2,432		1,761	347	1,413	

The ratio of gross debt to capitalization stood at 26% at the end of 2018.The closing cash balance increased to SAR 4.9 billion at the end of 2018 compared to SAR 3.2 billion at the end of 2017. The increase was mainly due to increase in revenue and the issuance of new Sukuk of SAR 1.9 billion issued in early 2018.

Summary of the Murabaha and Sukuk due maturities

Maturity	SAR millions		
	Murabaha	Sukuk	Outstanding balance
2019	361	1,500	1,861
2020	351	-	351
2021	36	-	36
2022	78	1,875	1,953
2023 Onwards	587	1,875	2,462
Gross Total	1,413	5,250	6,663

Statement of regulatory payments due

Item	SAR Thousands		
	2018	2017	2016
Payables	440,472	173,352	173,457
Accrued expenses	121,480	89,730	62,286
Indemnity	19,011	21,961	25,682
Dividend payable	35,443	35,350	35,358
Others	99,098	46,180	65,257
Total	715,864	366,573	362,040

Preparation of IFRS

In accordance with the compliance requirements of CMA and SOCPA, the Company has completed the implementation of International Financial Reporting Standards and started reporting its statutory financial statements in accordance with the International Financial Reporting Standards (IFRS) endorsed by SOCPA and adopted in KSA from 01 January 2017.

Distribution

Dividend Distribution

Dar Al Arkan distributed dividends for 2017 in the amount of SAR 0.50 per share as per the below schedule:

Dividend paid SAR	Distribution	Distribution date	Due date	Announcement Date
0.5	Account Transfer	2018/06/05	2018/05/15	2018/04/26

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:

- 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.

- 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).
- 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.
- 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.
- 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.
- 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.

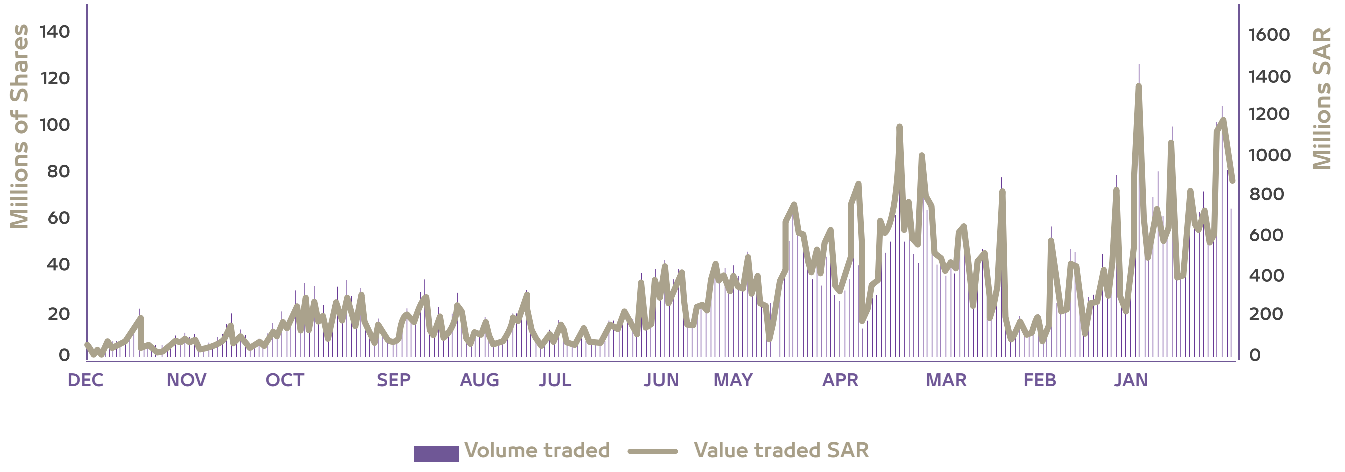
Investor relations and shareholder information Review

Shares Performance

Dar Al Arkan equity shares are listed on Saudi Stock Exchange (Tadawul). As on 31st December 2018, Dar Al Arkan has SAR 10,800 million authorized capital and issued shares of 1,080 million.

Share data performance (SAR)

End of the Year (31 Dec 2018)	9.02
Year Ago	14.40
3 Years Ago	6.20
Higest (29 Apr 2018)	14.76
Lowest (25 Nov 2018)	8.24



Communication Procedure

At Dar Al Arkan, Investor Relations takes the lead in communicating with the financial community, in particular, institutional shareholders, retail investors and covering analysts on the sell-side both on for the equity and debt. Anchored in the regulatory requirements of the Capital Markets Authority (CMA) and international best practice, the IR department strives to provide optimal disclosures and transparency to shareholders through regular and periodic contact.

In 2018, Dar Al Arkan conducted a number of investor events over and above the regulatory requirement of issuing quarterly results and hosting the corresponding Conference Call, in addition to the yearly General Assembly meeting. These events included participation in broker conferences, deal and non-deal road shows, as well as ad-hoc on demand meetings and calls with both retail, institutional investors and sell-side analysts.

Investor Relations Activities

Category	Number
Conference attended	5
Non deal road shows	2
Institutional meetings	95
Institutional inversors met	213
Retail Investors contacts	642

The IR department revamped the IR section of the corporate website and relaunched the IR App for Dar Al Arkan to offer investors yet another channel to access up to date financial information and stock price data.

An integral part of the IR department's role, is to offer the executive management and the board of director's regular feedback from investors, as well as compile and distribute regular trading and shareholdings reports.

Investor information

Below tables are information about investors in terms of the type of investors, the nationality of investors and the number of investors in relation to the size of investment:

Type of investors as of 17 December 2018

Category	Shares	%	Count
Institutions	108,167,066	10.02%	128
Retail	971,832,934	89.98%	98,949
Total	1,080,000,000	%100	99,077

Nationality of investors as of 17 December 2018

Nationality	No. of Investors	Qty Shares	% of Total
Saudis	97,759	990,246,860	91.69%
GCC (Ex: KSA)	124	52,776,460	4.89%
Foreign	1,203	36,976,680	3.42%
Total	99,077	1,080,000,000	100.00%

Board of Directors

About the Board

Yousef Abdullah Al Shelash

Chairman

Yousef Abdullah Al Shelash is the founder and chairman of Dar Al Arkan Real Estate Development Company. His experience lays in strategic planning and is a foremost real estate development expert.

In addition, he is also the Chairman of Saudi Home Loans "SHL", Chairman of Alkhair Capital Saudi Arabia and the Chairman of Alkhair Bank – Bahrain. Mr. Al Shelash holds a Bachelor in Islamic Law from Imam Muhammad bin Saud Islamic University, and a Diploma of Studies in Procedural Systems from the Institute of Management.

Majed Abdulrahman Al Qasem

Vice Chairman

Majed Abdulrahman Al Qasem is the vice chairman of the board of Dar Al Arkan Real Estate Development Company. His experience lays in Strategic Planning and he is a real estate development expert.

Mr. Al Qasim is also a member of the board of Alkhair Bank – Bahrain, a member of the board of Alkhair Capital Saudi Arabia (From 26 Jul 2018). Mr. Al Qasim holds a Bachelor in Islamic Law from Imam Muhammad bin Saud Islamic University, and a Diploma of Studies in Procedural Systems from the Higher Judicial Institute.

Abdullatif Abdullah Al Shalash

Managing Director

Abdullatif Abdullah Al Shalash is the Managing Director and a member of the board of Dar Al Arkan Real Estate Development Company. His experience lays in strategic planning, business development and information technology.

Mr. Al Shalash is also a member of the board of Saudi Home loans "SHL", a member of the board of Alkhair Capital Saudi Arabia, a member of the board of Alkhair Bank - Bahrain, and a member of the board of Tazur Company - Bahrain. Mr. Al Shalash holds a Bachelor of Institution Leadership and Supervision from Purdue University, USA.

Hethloul Saleh Al Hethloul

Member

Hethloul Saleh Al Hethloul is a member of the board of Dar Al Arkan Real Estate Development Company. He is also a member of the board of Alkhair Capital Saudi Arabia (until 10 October 2018) and formerly served as a member of the board of Saudi Home loans "SHL" (until 17 April 2018). His expertise is in investment and mortgage finance, strategies, plans and installment programs and holds a Diploma of Business Science.

Khalid Abdullah Al Shalash

Member

Khalid Abdullah Al Shalash is a member of the board of Dar Al Arkan Real Estate Development Company. His expertise is in real estate development, resource management and building implementation and investment and real estate valuation. He holds a Bachelor of Security Sciences from King Fahd Security College.

Tariq Mohamed Al Jarallah

Member

Tariq Mohamed Al Jarallah is a member of the board of Dar Al Arkan Real Estate Development Company. His expertise is in planning and planning of land and evaluation and valuation of real estate. He holds a Diploma of Accounting and Business Sciences.

Abdulaziz Abdullah Al Shelash

Member

Abdulaziz Abdullah Al Shelash is a member of the board of Dar Al Arkan Real Estate Development Company. His expertise is in real estate development, evaluation and valuation of real estate planning. He holds a Bachelor of Islamic Studies from Imam Muhammad bin Saud University.

Majed Roumi Al Roumi

Member

Majed Roumi Al Roumi is a member of the board of Dar Al Arkan Real Estate Development Company and a member of the board of Maalem Financing. His expertise is in investment, valuation and real estate finance. He holds a Master of Business Administration.

Ahmed Mohammed Al Dahash

Member

Ahmed Mohammed Al Dahash is a member of the board of Dar Al Arkan Real Estate Development Company. He has a General Education and his expertise is in real estate development, property management and investment and real estate valuation.

Abdulaziz Ibrahim Al Mana

Member

Abdulaziz Ibrahim Al Mana is a member of the board of Dar Al Arkan Real Estate Development Company. Dr. Abdulaziz Ibrahim Almani is also a University Professor, a Minister of State in the Council of Ministers, and a member of the Shoura Council. His expertise is in strategic planning, engineering education and management systems. Dr. Almani holds several degrees including: a Bachelor of Civil Engineering, University of Santa Clara, USA, a Master of and Ph.D. in Civil Engineering from Stanford University, USA.

Ziad El Chaar

Member

Ziad El Chaar is a member of the board of Dar Al Arkan Real Estate Development Company as well as the Chief Executive Officer of Emaar International, and a member of the board of Saudi Home loans "SHL". His expertise is in real estate development, property management and the financial and leadership fields. He holds a Master of Business Administration from the American University of Beirut.

Membership of the Board

The Board of Directors consists of 11 members, including (1) executive members, (5) non-executive members and (5) independent members.

Name	Capacity	Membership	Number of Meetings
Yousef Abdullah Al Shelash	Chairman	Non-executive	2
Abdullatif Abdullah Al Shalash	Managing Director	Executive	2
Majed Abdulrahman Al Qasem	Vice Chairman	Independent	2
Khalid Abdullah Al Shalash	Member	Non-executive	2
Tariq Mohammed Al Jarallah	Member	Independent	2
Abdulaziz Abdullah Al Shelash	Member	Non-executive	2
Majed Roumi Al Roumi	Member	Independent	2
Ahmed Mohammed Al Dahash	Member	Independent	2
Hethloul Saleh Al Hethloul	Member	Non-executive	2
Abdulaziz Ibrahim Al Mana	Member	Independent	1
*Ziad El Chaar	Member	Non-executive	1

*** Appointed on 23 April 2018**

Interest in contractual securities and underwriting rights

Below table is a 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 2018

Name	Capacity	No. of Shares at the beginning of the year	Ownership at the beginning of (%) the year	Change in the No. of shares during the year	Total Shares at the end of the year	Ownership at the end of (%) the year	Nature of Ownership
Yousef Abdullah Al Shelash	Chairman	1,000	0.0001%	0	1,000	0.0001%	Direct
Abdullatif Abdullah Al Shalash	Managing Director	9,137,550	0.8461%	0	9,137,550	0.8461%	Direct
Majed Abdulrahman Al Qasem	Vice Chairman	3,844,550	0.3560%	0	3,844,550	0.3560%	Direct
		639,154	0.0592%	0	639,154	0.0592%	Direct owned by direct relative
Khalid Abdullah Al Shalash	Board Member	27,723,293	2.5670%	(7,379,600)	20,343,693	1.8837%	Direct
			0.0001%	0	957	0.0001%	Direct owned by direct relative
Tariq Mohammed Al Jarallah	Board Member	3,000	0.0003%	0	3,000	0.0003%	Direct
Abdulaziz Abdullah Al Shelash	Board Member	3,849,550	0.3564%	0	3,849,550	0.3564%	Direct
Majed Roumi Al Roumi	Board Member	3,844,550	0.3560%	0	3,844,550	0.3560%	Direct
Ahmed Mohammed Al Dahash	Board Member	2,005,104	0.1857%	0	2,005,104	0.1857%	Direct
Hethloul Saleh Al Hethloul	Board Member	8,028,850	0.7434%	0	8,028,850	0.7434%	Direct
Abdulaziz Ibrahim Al Mana	Board Member	1,300	0.0001%	700	2,000	0.0002%	Direct
Ziad El Chaar*	Board Member	-	-	-	-	-	-
Ahmed Saleh Al Dehailan	Chief Audit Executive	80,000	0.0074%	0	80,000	0.0074%	Direct
TOTAL		**59,158,858**	**5.4778%**	**(7,378,900)**	**51,779,958**	**4.7946%**	

*** Appointed on 23 April 2018**

Meetings Attendance

Board meetings register

Name	March 21	April 23	Total
Yousef Abdullah Al Shelash	✓	✓	2
Abdullatif Abdullah Al Shalash	✓	✓	2
Majed Abdulrahman Al Qasem	✓	✓	2
Khalid Abdullah Al Shalash	✓	✓	2
Tariq Mohammed Al Jarallah	✓	✓	2
Abdulaziz Abdullah Al Shelash	✓	✓	2
Majed Roumi Al Roumi	✓	✓	2
Ahmed Mohammed Al Dahash	✓	✓	2
Hethloul Saleh Al Hethloul	✓	✓	2
Abdulaziz Ibrahim Al Mana	✓	X	1
Ziad El Chaar*	X	✓	1

* Appointed on 23 April 2018

Board members General Assembly meetings register 2018

Name	May 15
Yousef Abdullah Al Shelash	✓
Abdullatif Abdullah Al Shalash	✓
Majed Abdulrahman Al Qasem	✓
Khalid Abdullah Al Shalash	✓
Tariq Mohammed Al Jarallah	✓
Abdulaziz Abdullah Al Shelash	✓
Majed Roumi Al Roumi	✓
Ahmed Mohammed Al Dahash	X
Hethloul Saleh Al Hethloul	✓
Abdulaziz Ibrahim Al Mana	✓
Ziad El Chaar*	✓

* Appointed on 23 April 2018

Board Committees

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

The executive committee

The executive committee formation and meetings register:

Name	Capacity	Meeting Register					
		Feb 13	Jul 5	Aug 6	Oct 15	Dec 13	Total
Yousef Abdullah Al Shelash	Chairman	✓	✓	✓	✓	✓	5
Abdullatif Abdullah Al Shalash	Member	✓	✓	✓	✓	✓	5
Tariq Mohammed Al Jarallah	Member	✓	✓	✓	✓	✓	5
Majed Abdulrahman Al Qasem	Member	✓	✓	✓	✓	✓	5

Committee's responsibilities and meetings:

Monitor the implementation of the company 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 five meetings during 2018.

The Audit Committee

During General Assembly's meeting on May 1st 2017 has approved the selection of its members and its functions and controls work and rewards for its members.

The audit committee formation and meetings register:

Name	Capacity	Meeting Register					
		Feb 1	Apr 23	May 1	Jul 29	Nov 4	Total
Tariq Mohammed Al Jarallah	Chairman	✓	✓	✓	✓	✓	5
Hethloul Saleh Al Hethloul	Member	✓	✓	✓	✓	✓	5
Majed Abdulrahman Al Qasem	Member	✓	✓	✓	✓	✓	5
Majed Roumi Al Roumi	Member	✓	✓	X	✓	✓	4

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 five meetings during 2018. The committee discussed and reviewed the quarterly and annual financial statements for the year 2018 and passed their recommendations to the Board.

The nominations and remuneration committee

The nominations and remuneration committee formation and meetings register:

Name	Capacity	Meeting Register			
		Apr 23	May 1	Jul 24	Total
Majed Abdulrahman Al Qasem	Chairman	✓	✓	✓	3
Yousef Abdullah Al Shelash	Member	✓	✓	✓	3
Ahmed Mohammed Al Dahash	Member	✓	✓	X	2
Abdulaziz Ibrahim Al Mana	Member	X	✓	✓	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 three meetings during 2018.

Related party transactions

During 2018, 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:

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 15 million shares out of 100 million issued shares. The common Board members between SHL and Dar Al-Arkan are namely; Mr. Yousef Abdullah Al Shelash, Mr. Hethloul Saleh Al Hethloul (until 17/4/2018), Mr. Abdullatif Abdullah Al Shalash and Mr. Ziad El Chaar. 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 2018, there were no outstanding balance to be paid or settled with this related party.

Khozam Real Estate Development Company (KDC)

Khozam Real Estate Development Company (KDC) is a related party as the company has 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. The management of KDC requested that it invests its excess cash balance (opening balance as at beginning of 2018 amounted to SAR 192.53 million) with Dar Al-Arkan at a nominal interest repayable on demand to facilitate its working capital needs. During 2018 the company repaid SAR 4.63 million of this amount in advance; together with interest of SAR 0.96 million for its operational requirements. The closing balance as at 31 December 2018 was SAR 188.86 million. This transaction was approved during the AGM on May 15 2018 and the company can repay the amount and close the balance anytime.

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 Qasem 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 2018, there were no transactions and no outstanding balance to be paid or settled with this related party

Alkhair Capital

Alkhair Capital is a related party as the company owns 34% equity stake equivalent to 10,200,000 shares out of total issued shares of 30 million, and has common Board Members with Dar Al-Arkan. The common Board Members are Mr. Yousef Abdullah Al Shelash, Mr. Hethloul Saleh Al Hethloul (until 10/10/2018), Mr. Abdullatif Abdullah Al Shalash, Mr. Majed Abdulrahman Al Qasem (from 26/07/2018). Alkhair Capital Saudia and AlKhair Capital Dubai were engaged to provide secondment services to international subsidiaries, general financial advices, representing and filing the documents on behalf of the company with the Capital Market Authority (CMA), Tadawul and other statutory bodies. 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 2018, SAR 2.3 million was paid to AlKhair Capital Dubai in full towards an opening balance of SAR 0.90 million and fees and expenses charged SAR 1.45 million for the year. This transaction was approved during the AGM on May 15 2018. During 2018, there were no transactions and no outstanding balance to be paid or settled with Alkhair Capital Saudia.

Board undertakings

The Board of Directors undertakes the following:

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

Governance, Regulation and Risk

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 except for one exception as explained in the table below. 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:

- 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 amended by Resolution of the Board of the Capital Market Authority Number 3-45-2018 Dated 7/8/1439H Corresponding to 23/4/2018G;
- The Companies' Law of Saudi Arabia No. M/3 dated 28/01/1437H and associated ministerial directives of the Ministry of Commerce & Investment;
- The amended Dar Al-Arkan's Articles of Association.

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

The Company applies all the mandatory 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.

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

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 2018.

Description (in 1000 Saudi Riyal)	Executive Board members	Non-executive/ independent Board members	Senior executives (including MD, CEO and CFO)
Salaries and compensation	-	-	1,985
Allowances	-	-	1,151
Periodic and annual bonuses	-	-	-
Incentive plans	-	-	-
Any other compensations or incentives paid monthly or annually	-	-	219
End of service contribution	-	-	296

Penalties and Fines

Fine	Reasons for Fine	Amount	Fine received from	Ways to address them and avoid them in the future
Fine for placing flags with the logo of the company outside the main building outside the company HQ	Although DAAR obtained Municipality approval for the landscape modifications (DWGs /Docs) of DARR HQ, including the advertising flags, Municipality came back and asked DAAR to remove those flags, and issued a fine of 700 SAR	700 SAR	Jadah Company	The Company will obtain a separate approval in the event that the Company wishes to have such flags in the future
Fine on Al-Qasr project) for) Violation of building permit	An application for a building completion certificate was submitted to Municipality for this building. The municipality representative observed a number of violations conducted during construction, as indicated in the minutes of the Municipality committee	34,940 SAR	Amanat Alriyadh	The terms of the permits will be strictly followed to avoid similar fines in construction work for new projects.
Fine on Al-Qasr Project) for) License violation	Submitted to change the building permit from residential/ commercial to commercial and after preparing the technical reports by municipality, a number of violations on the building during the construction were reflected in the report.	36,160 SAR	Amanat Alriyadh	The terms of the permits will be strictly followed to avoid similar fines in construction work for new projects.
Fine on Al-Qasr project) for) Violation of building permit	Submitted to correct the building permit so that this permit is matching the approved plans. a number of violations on the building during the construction were reflected in the report, as indicated in the minutes of the Municipality committee	146,764 SAR	Amanat Alriyadh	The terms of the permits will be strictly followed to avoid similar fines in construction work for new projects.

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 functionally to the Audit Committee. The department applies the international standards for the professional practice of internal auditing issued by the Institute of Internal Auditors in Florida, USA. The internal audit staff are 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, and it evaluates not only the company's current situation but also provides 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 assessment, recommendations, and all information relevant to audit activity while boosting effective control and leverage the cost-effective execution of all the company's operations.

During 2018, the Internal Audit department implemented the approved Internal Audit Plan and worked very closely with other departments by providing them with appropriate recommendations related to the procedure enhancement of the company's operations and policies. Therefore, Internal Audit department managed to improve the effectiveness and efficiency of the internal control system and to enhance the performance and monitoring of internal controls as well as providing support and assistance to other departments to help them attain their objectives.

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.

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 allocated to clearly define the relations within the organization and therefore strategy and investment structure.

Internal control procedures

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

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

- The functions of the internal audit department include assessing the adequacy and effectiveness of the design of the Company's internal control, risk management and governance system. Also, focusing on the risks that could affect the company's business using the risk-based audit methodology. Management applied the International Standards of Internal Auditing.
- The Internal Audit Department is objective and independent. The Internal Audit Department 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 interviews with staff.
- During the year 2018, the Internal Audit Department performed periodic reviews according to the approved annual plan. The Internal Audit Department carried out the planned audits for 2018, in addition to the management's involvement in the implementation of some special assignments.

Scope of work

The scope of internal audit work in 2018 included an examination of the adequacy and effectiveness of the Company's internal control system to verify whether the Company's internal systems provide reasonable assurance to achieve the Company's objectives. The scope of work included the following:

- Audit and periodic inspection of the departments that work in the company during appropriate periods.
- Inform and submit the audit results to departments under audit in order to verify the necessary procedures.
- Evaluate the plans and procedures provided by departments to address the audit observations and recommendations covered in the audit report. In case of insufficient corrective actions, the internal audit department may re-discuss the plans and recommendations with concerned departments to ensure the efficiency and adequacy of the measures taken.

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

- Adequate financial and accounting systems and sufficient procedures to prepare the financial statements.
- The internal control system is operating effectively and risk strategy had been updated and the methods to mitigate the risks.
- Corrective actions had been implemented for all the internal audit observations and recommendations which were submitted to the Audit Committee.

Risk factors

Risk Management Policies

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 its business goals.

The company's 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 the company and to take appropriate decisions and promptly respond to risks or potential opportunities that have an impact on the company's competitiveness. Risks by their nature can cause unforeseen outcomes and following risk management process is not by itself a guarantee that all risks can be mitigated to ensure that they do not have any impact on the business.

The risks that the Company may face and commensurate management & control policies

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 a summary and there are numerous other risks, which could materially affect the company's financial condition and operational results adversely.

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 high-cost real estate developers to exit the market, while cost balanced companies could maintain their position in the market as they continue to operate with a positive cash margin.

Country risk

Country risk refers to the risk of investing in a foreign country, arising from possible changes in the business environment that may adversely affect operating profits or the value of assets in that country. This risk is the result of a drastic change in local policies, laws and regulations in foreign countries, which could adversely affect the expected returns from investment in real estate or projects.

The company frequently undertakes adequate investment studies of foreign investment opportunities and invests in the most stable countries in line with the objectives and strategy of the company's growth, provided that these investments/ projects are implemented in accordance with adequate control procedures

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 impact on our financial condition and the results of operations.

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

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.

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.

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 reporting and all incidents are reviewed with the goal of drawing lessons and preventing recurrence.

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.

Credit Risk

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

With 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 of the company 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 company 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 company is exposed to commission rate risk with respect to its floating commission covenants agreed for its long term Islamic Murabaha (revolving credit) facilities obtained from local banks.
- The short term revolving borrowings' rates are renegotiated at every renewal proposal to achieve the best possible commission rate to reflect the given financial credentials and related risk perception of the company.
- The company policy is to have a specific shariah' compliant commission rate swap contract to manage its commission rate risk. The company's international borrowing commission rates are primarily based on LIBOR and its local borrowings are based on SAIBOR. Hence, the commission exposure of the company is variable according to the changes in the LIBOR and SAIBOR.

  The commission rate sensitivity analysis is performed based on the commission rate exposure of the company for floating rate liabilities outstanding at the reporting date. The calculations are done on floating commission rated assuming the liabilities outstanding for a whole year as at the reporting date.
- The net profit of the company for the reported year would have been affected as a result of changes in floating commission rates. If there is any capitalization of borrowing costs directly attributed to projects in progress, there would be timing differences on such an impact to the company's current profit and loss account and the current impact would be nil as there is no capitalization for the current year or historically, the management capitalizes approximately 10% of borrowing costs to projects in progress as explained in note 2.9 in the audited financial statements.

Liquidity Risk

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

To mitigate the liquidity risk and associated losses of business and brand value opportunities; the company, where possible, keeps sufficient liquid assets in all business conditions. The company 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 company 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.

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 company is the Saudi Riyal that is pegged against the US Dollar with a fixed exchange rate of 3.75 Saudi Riyal per US Dollar. Since transactions, other than US Dollars, are negligible; the company does not assume any significant foreign currency risk.

Islamic financial variable instruments risk

As part of its asset and liability management, the company 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 company uses Islamic finance variable instruments primarily to manage exposures to foreign currency and commission rate risks. The company'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 company's Islamic finance variable instruments are exposed to credit risk to the extent of that counterparty's inability to meet the contractual obligations. The company mitigates such risks by dealing with major financial institutions as its counterparties. The company management does not expect any material losses or risk from the default of counterparties as the potential risk of such defaults is periodically monitored.

Consolidated Financial Statements and Independent Auditor's Report

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY

SAUDI JOINT STOCK COMPANY

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT

AUDITOR'S REPORT FOR THE YEAR ENDED 31 DECMBER 2018

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AlKharashi & Co.
Certified Accountants And Auditors
Riyadh Main office.
Jeddah Office.
Correspondent of MAZARS

CPAAI
CPA ASSOCIATES INTERNATIONAL

Mohammed Al-halj & Co.
Certified Public Accountants
License : 323/11/811
Independent Member of CPA Associates International

26 February 2019

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, 2018, 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, 2018, 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.

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	How the matter was addressed in our audit
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 14.498 billion (31 December 2017: SR 14.874 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 20% (31 December 2017: 35%) 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.	• 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.
Evaluation of investment properties Investment properties are stated in the Group's consolidated statement of financial position at cost, while their fair value for the purpose of disclosure is determined only in the notes to the 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;

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) (continued)

The Key Audit Matters	How the matter was addressed in our audit
The Group has measured the fair value of the investment properties by engaging an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. The fair value of investment properties has been estimated using the income capitalization method. Annual cash flows are estimated by extrapolating and reconciling the current rental income based on their optimal occupancy and then capitalizing it at an annual rental rate of 6-8% between the leased residential and commercial properties in order to reach the estimated fair value shown in the note 5. The valuation of investment properties is critical to our audit because of its importance, complexity and significant reliance on a range of assumptions including expected lease values, expected returns, occupancy rate and discount rate.	• 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.
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.	• 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 2018, other than the consolidated financial statements and the auditors' report thereon. We expect to obtain the Annual Report for the year ended 2018 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.

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) (continued)

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 article No.135 of the companies' regulation requires that the auditor should include in his audit report any violation of the Companies' Regulations or the Companies' articles of association. During our audit, we did not note any violation of the Companies' Regulations or the Companies' articles of association.

For Al-Kharashi Co.

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

For Mohammed Al-haij & Co.

Mohammed A. Al-haij
Certified Public Accountant
License No. (119)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECMBER 2018

	Notes	2018 SR 000	2017 SR 000
ASSETS			
Non-current assets			
Investment properties, net	5	1,693,141	3,290,010
Long-term development properties	6	14,148,262	14,751,565
Property and equipment, net	22a&7	83,085	70,925
Investments in associates and joint ventures	8	826,621	811,189
Other assets	9	2,511	1,950
Total non-current assets		16,753,620	18,925,639
Current assets			
Short-term development properties	(6)	349,329	122,675
Trade receivables and others	(10)	4,740,877	4,033,325
Cash and cash equivalents	(11)	4,903,491	3,159,666
Total current assets		9,993,697	7,315,666
TOTAL ASSETS		26,747,317	26,241,305
LIABILITIES AND SHAREHOLDERS' EQUITY			
Non-current liabilities			
Borrowing -long-term maturity portion	(12)	4,731,167	4,720,334
End of service indemnities	(13)	19,011	21,961
Total non-current liabilities		4,750,178	4,742,295
Current liabilities			
Borrowings-short-term maturity portion	12	1,849,623	1,678,648
Trade payables and others	14	885,355	537,142
Zakat provision	15c	556,828	549,670
Total current liabilities		3,291,806	2,765,460
Total liabilities		8,041,984	7,507,755
Shareholders' Equity			
Share capital	(16)	10,800,000	10,800,000
Statutory reserve		1,109,601	1,058,720
Retained earnings		6,795,732	6,874,830
Total shareholders' equity		18,705,333	18,733,550
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		26,747,317	26,241,305

Managing Director

Chief Financial Officer

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

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 SR 000	2017 SR 000
Revenue	(17)	6,412,265	4,734,682
Cost of revenue	(18)	(5,355,114)	(3,620,672)
GROSS PROFIT		1,057,151	1,114,010
Operating expenses			
General and administrative expenses	(19)	(168,942)	(162,002)
OPERATING PROFIT		888,209	952,008
Finance costs	(20)	(511,652)	(441,523)
Other income, net		129,866	36,722
Share of net profits from associates and joint ventures	8a	15,432	20,604
PROFIT BEFORE ZAKAT		521,855	567,811
Zakat provisions	15b	(13,046)	(14,443)
NET PROFIT FOR THE YEAR		508,809	553,368
Other comprehensive income			
Re-measurement gain on end of service indemnities		2,974	2,675
Total comprehensive income for the year		511,783	556,043
Total comprehensive income attributable to			
Dar Al Arkan shareholders		511,783	556,043
Earnings per share (in Saudi Riyal)	(21)		
Basic and diluted		0.47	0.51

Managing Director

Chief Financial Officer

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

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital SR 000	Statutory reserve SR 000	Retained earnings SR 000	Total equity SR 000
2018				
Balance as at 1 January 2018	10,800,000	1,058,720	6,874,830	18,733,550
Net profit for the year	-	-	508,809	508,809
Other comprehensive income	-	-	2,974	2,974
Total comprehensive income for the year	-	-	511,783	511,783
Transfer to statutory reserve		50,881	(50,881)	-
Dividend	-	-	(540,000)	(540,000)
Balance as at 31 December 2018	10,800,000	1,109,601	6,795,732	18,705,333
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 reserve	-	55,337	(55,337)	-
Balance as at 31 December 2017	10,800,000	1,058,720	6,874,830	18,733,550

Managing Director

Chief Financial Officer

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

	2018 SR 000	2017 SR 000
OPERATING ACTIVITIES		
Profit before Zakat	521,855	567,811
Adjustment for:		
Depreciation	78,355	76,775
End of service indemnities	4,122	5,129
Finance costs	511,652	441,523
Share of net profit from associates and joint ventures	(15,432)	(20,604)
Operating cash flows before movements in working capital	1,100,552	1,070,634
Development properties, net	1,903,999	2,227,035
Trade receivables and others	(707,552)	(1,450,347)
Other assets	(561)	(1,122)
Trade payables and others	348,213	7,421
Cash from operations	2,644,651	1,853,621
Finance costs paid	(474,207)	(408,673)
Zakat paid	(5,888)	(2,267)
End-of-service indemnities paid	(4,098)	(6,175)
NET CASH FROM OPERATING ACTIVITIES	2,160,458	1,436,506
INVESTING ACTIVITIES		
Purchase of property and equipment	(20,348)	(10,130)
Disposal of property and equipment	-	440
Investment Properties	(648)	-
NET CASH USED IN INVESTING ACTIVITIES	(20,996)	(9,690)
FINANCING ACTIVITIES		
Dividend	(540,000)	-
Long term borrowings	144,363	1,150,762
NET CASH USED IN /FROM FINANCING ACTIVITIES	(395,637)	1,150,762
INCREASE IN CASH AND CASH EQUIVALENTS	1,743,825	2,577,578
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	3,159,666	582,088
CASH AND CASH EQUIVALENTS, END OF THE YEAR	4,903,491	3,159,666
Non-cash transaction related to transfer of investment property (Note 5)		
Transfer of investment properties to development properties	1,527,350	62,889

Managing Director

Chief Financial Officer

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

1- General Information

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY (the "Company"), is a Saudi Joint Stock Company 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 REAL ESTATE INVESTMENT COMPANY – is a limited liability company (previously known as Dar Al Arkan Proprty (AM) 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 period**

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 2018.

IFRS 15	clarification	- Revenue from Contracts with Customers
IAS 19	Amendment	- Plan Amendment, Curtailment or Settlement
IFRS 9	Amendment	- Amendments regarding prepayment features with negative compensation and modifications of financial liabilities
IFRIC 22	clarification	- Foreign Currency Transactions and Advance Consideration issued.

The group also have early adopted few new standards and interpretations in issuance and are not mandatory for adoption including, IFRS 1, IFRS 9, IFRS 15, IFRS 16, IAS 23 and IAS 40 in the year ended 31 December 2017.

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 3 & 11	Annual improvements	- Definition of a Business and Accounting for Previously Held Interests
IFRS 17	New standard	- Insurance Contract
IAS 1&7	Amendment	- Dentition of Material (new definition of material and the accompanying explanatory paragraphs is included in IAS1)
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.

DAR AL ARKAN REAL ESTATE DEVELOPMENT COMPANY
SAUDI JOINT STOCK COMPANY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

IFRIC 23	clarifications	- Uncertainty over Income Tax Treatments. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12.
IAS 19	Amendments	- If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.
IAS 28	Amendment	- Long-term Interests in Associates and Joint Ventures has been amended to clarify that an entity applies IFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

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 is 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 2018.

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 year 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

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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 on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. 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.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, IFRS 9 requires the Group to recognise a loss allowance for expected credit losses on:

- Debt investments measured subsequently at amortised cost or at FVTOCI;
- Lease receivables;
- Trade receivables and contract assets; and
- Financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

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. The Company assesses receivables that are individually significant and receivables included in a group of financial assets with similar credit risk characteristics for impairment. This assessment of impairment requires judgment. In making this judgment, the Company evaluates credit risk characteristics that consider past-due status and other loss event factors being indicative of the ability to pay all amounts due as per contractual terms. A provision for impairment is made where there is an 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 and the carrying value of the receivable exceeds the present value of the future cash flow discounted using the original effective interest rate. The carrying value of the receivable is reduced with the provision 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 under IFRS 9 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 wherein the asset being created has no other alternative use and the Company had enforceable right to payment for the performance completed to date 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.

The Company will recognise all the incremental costs of obtaining or performing a contract as assets if it expects to recover those costs from the transaction price. The incremental costs are those costs that the Company would not have incurred if the contract had not been obtained. All costs to fulfil its obligations under an existing contract, or an anticipated contract, are capitalised in accordance with IFRS 15 if the costs:

- directly relates to such specific contract;
- are expected to be recovered.
- Create, enhance or generate the resources of the company which will be used in performing the current or future performance obligations

All asset recognised in relation to contract costs is systematically amortised on a basis consistent with the pattern or proportion of transfer of the obligation under the contract to which the asset relates.

If the overall amortisation period of such expenses is one year or less the Company may expense such cost when incurred.

The Company will follow an impairment test to assess the carrying value of such assets and 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 year. 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 Provisions

A provision is recognised if, as a result of past events, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefit will be required to settle the obligation.

2-18 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.

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• 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.

A performance obligation is considered satisfied over the time when at least one of the following criteria is met:

- The customer receives and consumes the benefits of the Companies' performance as it performs.
- The performance creates and enhances the value of the customer-controlled asset.
- The Company has no alternative use to the asset being created and has the legally enforceable right to payment for all obligations performed or completed to date.

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.

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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 31 December 2018 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 these 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:

	2018 Range	2017 Range
Profit margin on carrying cost –development properties	20% - 25%	33% - 37%
Targeted IRR –development properties	%6-4	%7-5
Estimated Capitalisation of yields- investment properties	%8-6	%7-5

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 2018 and 31 December 2017 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:

	For the year ended 31 December 2018			
	Notes	Sale of Developed Properties	Leasing of Properties	Group Total
		SR 000	SR 000	SR 000
SEGMENT WISE PROFIT & LOSS				
Revenue		6,276,487	135,778	6,412,265
Cost of revenue		(5,284,947)	(70,167)	(5,355,114)
GROSS PROFIT		991,540	65,611	1,057,151
Operating expenses:				
General and administrative expenses	19			(168,942)
				888,209
OPERATING PROFIT				
Finance costs	20			(511,652)
Other income, net				129,866
Share of net profit from associates and joint ventures	8a			15,432
SEGMENT PROFIT FOR THE YEAR				521,855
SEGMENT WISE ASSETS & LIBILITIES				
TOTAL ASSETS		23,197,571	3,549,746	26,747,317
TOTAL LIABILITIES		7,977,247	64,737	8,041,984

		For the year ended 31 December 2017		
	Notes	Sale of Developed Properties	Leasing of Properties	Group Total
		SR 000	SR 000	SR 000
SEGMENT WISE PROFIT & LOSS				
Revenue		4,584,819	149,863	4,734,682
Cost of sales		(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			(162,002)
OPERATING PROFIT				952,008
Finance costs	20			(441,523)
Other income, net				36,722
Share of net profit from associates and joint ventures	8a			20,604
SEGMENT PROFIT FOR THE YEAR				567,811
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

5- Investment Properties, Net

The movement in investment properties is as follows:

	2018	2017
	SR 000	SR 000
COST		
At beginning of the year	3,637,179	3,714,178
Transfer to development properties	(1,672,536)	(76,999)
Additions	648	-
At end of the year	1,965,291	3,637,179
ACCUMULATED DEPRECIATION		
At beginning of the year	347,169	289,400
Transfer to development properties	(145,186)	(14,110)
Charged during the year	70,167	71,879
At end of the year	272,150	347,169
CARRYING AMOUNT AT THE END OF THE YEAR	1,693,141	3,290,010

Included within investment properties is land with an original cost of SR 470 million (31 December 2017: SR 578.1 million).

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Fair value estimation:

Fair value of the investment properties is estimated by a recoganised valuation agency (ValuStrat Saudi Arabia) 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 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 6-8% between residential and commercial leased properties to arrive the fair value estimated as below:

	2018	2017
	SR 000	SR 000
COST	1,693,141	3,290,010
ESTIMATED FAIR VALUE		
Estimated on rent yield of 6-8 % on Investment properties	1,927,484	3,313,183

The fair valuation of investment properties is categorised under Level 2 in the fair value hierarchy

6- Development Properties

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

31 December 2018	Year ended 31 December 2018				
	Short-term Developed Projects	Short-term Developed land	Developed land/ Project	Projects under Developments	Total
	SR 000	SR 000	SR 000	SR 000	SR 000
COST					
At beginning of the year	49,227	73,448	775,030	13,976,535	14,874,240
Additions during the year	1,278	-	20,070	3,359,600	3,380,948
Transfer, net	6,497	239,408	1,934,132	(652,687)	1,527,350
Charged to cost of sales during the year	(20,529)	-	(775,030)	(4,489,388)	(5,284,947)
CARRYING AMOUNT AT THE END OF THE YEAR	36,473	312,856	1,954,202	12,194,060	14,497,591
Short- term development properties					349,329
Long-term development properties					14,148,262

31 December 2017	Year ended 31 December 2017				
	Short-term Developed Projects SR 000	Short-term Developed land SR 000	Developed land/ Project SR 000	Projects under Developments SR 000	Total 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, net	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

Projects under development includes land worth SR 8.6 billion (31 December 2017: SR 6.63 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 2018 the Group has capitalised Islamic borrowing costs amounting to SR nil (31 December 2017: nil) on qualifying assets. Islamic borrowing costs were capitalised at an annual weighted average capitalisation effective rate of 0% (31 December 2017: 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 20% (31 December 2017: 35%) 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 4-6% for development properties to arrive at the fair value estimate.

31 December 2018	Year ended 31 December 2018				
	Short-term Developed Projects SR 000	Short-term Developed land SR 000	Developed land/ Project SR 000	Projects under Developments SR 000	Total SR 000
COST	36,473	312,856	1,954,202	12,194,060	14,497,591
ESTIMATED FAIR VALUE					
Estimated @ 20% margins on cost – Land	37,000	375,000	2,344,000	14,630,000	17,386,000
Estimated @ 4-6 % IRR – Land	37,000	313,000	1,954,000	15,818,000	18,122,000
Average fair value on land	37,000	344,000	2,149,000	15,224,000	17,754,000
Estimated fair value	37,000	340,000	2,140,000	15,200,000	17,717,000

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31 December 2017	Year ended 31 December 2017				
	Short-term Developed Projects SR 000	Short-term Developed land SR 000	Developed land/ Project SR 000	Projects under Developments SR 000	Total 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

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 SR 000	Decrease SR 000
Change in fair value on land		
10% change in comparable margins	1,417,000	(1,417,000)
RRI ni egnahc %1	929,000	(824,000)
Average change in fair value on land	1,173,000	(1,121,000)
Change in fair value on Properties		
50 basis points change in capitalisation rate	32,000	(32,000)
Sensitivity impact on estimated fair value	1,205,000	(1,153,000)

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

7- Property and Equipment, Net

31 DECEMBER 2018	Land and buildings SR 000	Leasehold improvement SR 000	Vehicles SR 000	Machinery and tools SR 000	Office equipment SR 000	Total SR 000
COST						
Balance at 1 January 2018	109,145	6,143	8,447	13,811	48,672	186,218
Additions for the year	5,393	3,432	93	3,833	6,714	19,465
Transfer	-	-	(522)	-	-	(522)
Balance at 31 December 2018	114,538	9,575	8,018	17,644	55,386	205,161
ACCUMULATED DEPRECIATION						
Balance at 1 January 2018	48,155	6,024	8,445	13,530	41,624	117,778
Depreciation for the year	3,135	615	14	662	2,588	7,014
Transfer	-	-	(522)	-	-	(522)
Balance at 31 December 2018	51,290	6,639	7,937	14,192	44,212	124,270
CARRYING AMOUNT						
AT 31 DECEMBER 2018	63,248	2,936	81	3,452	11,174	80,891

31 DECEMBER 2017	Land and buildings SR 000	Leasehold improvement SR 000	Vehicles SR 000	Machinery and tools SR 000	Office equipment SR 000	Total 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

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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:

	2018 SR 000	2017 SR 000
Investments, beginning of year	811,189	790,585
Additions	-	-
Share of profit during the year	15,432	20,604
Investments, end of year	826,621	811,189

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

	Amount invested SR 000	% of Holding
Saudi Home Loans (SHL)	150,000	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	47,574	
Balance, end of the year	826,621	

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

31 DECEMBER 2018	Juman	KDC	ACS	SHL	TOTAL
	SR 000	SR 000	SR 000	SR 000	SR 000
Total assets	-	541,481	303,915	4,375,822	5,221,218
Total liabilities	-	(36,504)	(18,320)	(2,905,951)	(2,960,775)
Net assets	-	504,977	285,595	1,469,871	2,260,443
Group's share of net assets	1,500	507,538	97,102	220,481	826,621
Total revenue for the year	-	-	76,113	171,294	247,407
Total profit for the year	-	(159)	25,984	67,700	93,525
Total cumulative earning at end of the year	-	(35,769)	(14,405)	469,870	419,696
Total cumulative earning at end of last year	-	(35,610)	(44,356)	434,340	354,374
Change for the year	-	(159)	29,951	35,530	65,322
Group's share of cumulative profit for the year	-	(81)	10,183	5,330	15,432

31 DECEMBER 2017	Juman	KDC	ACS	SHL	TOTAL
	SR 000	SR 000	SR 000	SR 000	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

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 originally invested SAR 120 million representing 15% of the paid up share capital of Saudi Home Loans (SHL) and during 2017 the SHL increased the paid up share capital by issuing 20 million shares of SR 10 each to its existing shareholders in the same proportion of their shareholding by transferring an equal amount from its retained earnings (by capitalising profit). This increase in share capital was approved in the EGM meeting held on 24 May 2017 and accordingly, the original investment of SAR 120 million has been revised to SAR 150 million to reflect the capital increase.

(ii) 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.

(iii) The KDC investment include SR 250 million as an exclusive right to participate in the Khozam project development and SR 276 million as capital contributions 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.

(iv) During 2016 the group had invested in Eastern Juman Company a Limited Liability Company established mainly for the development of Juman project located between Dammam and Ras Tanura. The Company is registered in Riyadh under the Commercial Registration No. 1010462791 dated 15/10/1437H, (corresponding to 20/07/2016) with a share capital of SAR 8.2 million. The group has paid SAR 1.5 million towards the 18.29% of its share capital and management believe that the value of the total investment has not diminished or impaired.

9- Other Assets (deferred charges), net

The movement during the year is as below:

	2018	2017
	SR 000	SR 000
Balance, beginning of the year	1,950	828
Additions during the year	1,412	1,122
Amortisation charge for the year	(851)	-
Balance , end of the year	2,511	1,950

10- Trade Receivables and Others

	2018 SR 000	2017 SR 000
Trade receivables – net of allowances for doubtful debts of SR 19.02 million (31 December 2017: SR 19.02 million)	4,015,337	3,338,618
Advance payments to purchase land	559,670	559,670
Accrued revenue	20,548	2,219
Prepayments and others	144,459	131,955
Short term investment- trading (note 10c)	863	863
Total	4,740,877	4,033,325

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 year 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

	2018 SR 000	2017 SR 000
0-60 days	490,553	1,839,703
61-120 days	980,897	656,027
121-180 days	763,215	528,452
Above 180 days	1,780,672	314,436
Total	4,015,337	3,338,618

Ageing are from the date of invoice and the trade receivables include about 97% (31 December 2017: 98%) receivables against land and project sales which are fully secured against such land and project parcels.

b) Expected Credit Loss evaluation of Account receivables

The Group consistently measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the customer/tenant and shall also make a specific analysis of respective customer/ tenant to assess the current financial position and any other related factors along with general economic conditions of the industry in which the customer/tenants operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The Group has recognised full credit allowance against all receivables where the analysis has indicated that these receivables are generally not recoverable. The Group has not made any provisions against the receivables against the sale of land and projects and dues and lease receivables from government departments.

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There has been no change in the estimation techniques or significant assumptions made during the current reporting period

Movement in the allowance for doubtful debts

	2018 SR 000	2017 SR 000
Balance, beginning of the year	19,019	19,019
Allowance for the year	-	-
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 Islamic debt and equity securities on behalf of the Group. The transaction during the year is detailed below:

	2018 SR 000	2017 SR 000
Balance, beginning of the year	863	863
Purchased / sold during the year	-	-
Total	863	863
Realised gains	-	-
Total	863	863
Transfers/withdrawals	-	-
Balance, end of the year	863	863

Investment includes SR 863 thousand as at 31 December 2018 (31 December 2017 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

	2018 SR 000	2017 SR 000
Cash in hand	4,949	1307
Cash with bank	4,898,542	3,158,359
Total	4,903,491	3,159,666

12- Long-term Borrowings

	2018 SR 000	2017 SR 000
Islamic Sukuk	5,250,000	4,719,263
Islamic Murabaha	1,413,475	1,760,575
Total	6,663,475	6,479,838
Less: Un-amortised transaction costs (note 12 b)	(82,685)	(80,856)
Borrowings end of the year	6,580,790	6,398,982
Less:		
Borrowing -short-term maturity portion	(1,849,623)	(1,678,648)
Borrowing -long-term maturity portion	4,731,167	4,720,334

a. Repayable as follows:

	2018 SR 000	2017 SR 000
Within one year	1,860,525	1,690,463
In the second year	351,300	1,859,325
In the third to fifth years inclusive	4,451,650	2,930,050
Total	6,663,475	6,479,838

b. Islamic borrowings transaction costs:

	2018 SR 000	2017 SR 000
Balance, beginning of the year	80,856	65,155
Additions during the year	39,274	48,551
Amortisation charge for the year	(37,445)	(32,850)
Balance, end of the year	82,685	80,856

c. Analysis of borrowings:

This represents SR 5.25 billion of Islamic Sukuk comprising:

1) 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.

2) 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.

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 2023.

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

The Sukuk agreements include financial covenants, which the Group was in compliance with as at 31 December 2018.

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 9 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 SR 000	Short-term SR 000	Long-term SR 000
2020	643,125	328,125	315,000
2023	513,350	17,400	495,950
2027	257,000	15,000	242,000
TOTAL	1,413,475	360,525	1,052,950

The total weighted average effective annual commission rate for the year ended 31 December 2018 is 6.88% (31 December 2017: 6.95%)

The facility agreements include certain financial covenants, which the Group was in compliance with as at 31 December 2018.

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:

	2018 SR 000	2017 SR 000
Balance, beginning of the year	21,961	25,682
Charged to expenses during the year	4,122	5,129
Re-measurement gain	(2,974)	(2,675)
Paid during the year	(4,098)	(6,175)
Balance, end of the year	19,011	21,961

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

A- Significant actuarial assumptions:

	2018	2017
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

	2018 SR 000	2017 SR 000
Balance, beginning of the year	21,582	25,546
Net period benefit cost	3,960	4,886
Re-measurement gain	(2,974)	(2,675)
Paid during the year	(3,894)	(6,175)
Balance, end of the year	18,674	21,582

C- Analysis of present value of obligation

	2018 SR 000	2017 SR 000
Benefit obligation earned and accumulated to the date of financial position	14,743	16,923
Benefits attributed to future salary increase	3,931	4,659
Balance, end of the year	18,674	21,582

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:

	2018 SR 000	2017 SR 000
Discount rate + 0.5%	17,976	20,715
Discount rate - 0.5%	19,420	22,513
Long term salary increase + 0.5%	19,472	22,562
Long term salary increase - 0.5%	17,922	20,661

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

The weighted average duration of the employee benefit obligation is 7.72 years for the year ended December 31, 2018 (31 December 2017: 8.03 years). The expected maturity analysis of undiscounted defined benefit obligation is as follows:

	2018 SR 000	2017 SR 000
Within one year	2,017	2,286
In the second year	3,216	3,781
Between third and fifth years	4,565	5,490
Above five years	8,876	10,025
	18,674	21,582

14- Trade Payables and Others

	2018 SR 000	2017 SR 000
Trade payables	440,472	173,352
Due to related parties (note 23a)	188,862	192,530
Accruals	121,480	89,730
Unpaid dividend	35,443	35,350
Lease liability (note 22b)	2,047	2,301
Unearned revenue	97,051	43,879
Total	885,355	537,142

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 2017: 30 days).

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

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15- Zakat Provisions

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

	2018 SR 000	2017 SR 000
Zakat base:		
Equity	18,193,550	17,720,285
Provisions and other adjustments	3,841,995	3,386,684
Total Zakat base	22,035,545	21,106,969
Deductions:		
Total deduction after adjustment	(22,035,545)	(21,106,969)
Zakat base	-	-

b) Adjusted net income for the year:

	2018 SR 000	2017 SR 000
Adjusted net income:		
Adjusted net income,net	506,447	546,161
Adjusted net income	506,447	546,161
Estimated Zakat and Tax provision for the year	13,046	14,443

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:

	2018 SR 000	2017 SR 000
Balance beginning of the year	549,670	537,494
Estimated Zakat for the year	13,046	14,443
Paid during the year	(5,888)	(2,267)
Estimated Zakat provision, end of the year	556,828	549,670

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 2017

16- Share Capital

	2018 SR 000	2017 SR 000
1,080,000,000 ordinary shares of SR 10 each Issued and fully paid shares of SR 10 each	10,800,000	10,800,000
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

	Basis of Recognition	For the year ended 31 December	
		2018 SR 000	2017 SR 000
Sale of development properties	- At a point in time	6,251,657	4,563,391
Sale of residential properties	- At a point in time	24,830	21,428
IFRS 16	- IFRS 16	135,778	149,863
Total		6,412,265	4,734,682

18- Cost of Revenue

	For the year ended 31 December	
	2018 SR 000	2017 SR 000
Development properties cost	5,264,418	3,534,439
Residential properties-cost	20,529	14,354
Direct cost on leasing – Depreciation	70,167	71,879
Total	5,355,114	3,620,672

19- General and Administartive Expenses

	For the year ended 31 December	
	2018 SR 000	2017 SR 000
General and administrative expenses	160,754	157,106
Depreciation (refer note 7 & 22a)	8,188	4,896
Total	168,942	162,002

20- Finance Costs

	For the year ended 31 December	
	2018 SR 000	2017 SR 000
Charges on Sukuk	366,563	287,697
Charges on Islamic Murabaha	107,619	120,915
Charges on Lease liability (note 22b)	25	61
Amortisation of transaction costs (note 12b)	37,445	32,850
Total	511,652	441,523

21- Earnings Per Share

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

	For the year ended 31 December	
	2018 SR 000	2017 SR 000
Earnings		
For the purpose of basic earnings per share (Net profit for the year)	508,809	553,368
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.

	For the year ended 31 December	
	2018 SR 000	2017 SR 000
COST		
At beginning of the year	3,668	1,126
Additions for the year	883	3,079
Transfer/ retirements	(589)	(537)
At end of the year	3,962	3,668
ACCUMULATED DEPRECIATION		
At beginning of the year	1,183	357
Charged during the year	1,174	923
Transfer/ retirements	(589)	(97)
At end of the year	1,768	1,183
NET BOOK VALUE AT THE END OF THE YEAR	2,194	2,485

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

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.

	For the year ended 31 December	
	2018 SR 000	2017 SR 000
LIABILITY		
At beginning of the year	3,751	1,171
Additions for the year	883	3,079
Transfer/ retirements	-	(560)
Finance cost for the year	85	61
At end of the year	4,719	3,751

PAYMENTS		
At beginning of the year	1,450	429
Paid during the year	1,222	1,021
At end of the year	2,672	1,450
BALANCE AT THE END OF THE YEAR	2,047	2,301

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:

	For the year ended 31 December	
	2018 SR 000	2017 SR 000
Amounts due:		
Within one year	925	1,025
Between one and five years	2,270	2,463
After five years	-	-
Total	3,195	3,488

B: GROUP AS LESSOR

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

	2018 SR 000	2017 SR 000
Amounts Receivable:		
Within one year	72,147	59,496
Between one and five years	172,482	145,604
After five years	35,220	29,782
Total	279,849	234,882

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:

	For the year ended 31 December	
	2018 SR 000	2017 SR 000
Balance, beginning of the year	192,530	193,363
Repayment of advances for the year	(4,628)	(1,553)
Profit charged for the year	960	720
Balance, end of the year	188,862	192,530

b) Compensation of key management personnel

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

	For the year ended 31 December	
	2018 SR 000	2017 SR 000
Short-term benefits	3,328	8,641
End-of-service benefits	296	857
Remunerations and attendance fees to Board of Directors and Executive Committee	-	-
	3,624	9,498

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:

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	For the year ended 31 December	
	2018 SR 000	2017 SR 000
Balance, beginning of the year	-	115
Fees & expenses charged for the year	-	(115)
Amounts paid during the year	-	-
Balance, end of the year	-	-

(ii) Alkhair Capital Saudi Arabia

The Group engaged Alkhair Capital Saudi Arabia, an associate entity, to provide general financial advisory services under a duly signed Discretionary Portfolio Management Agreement (DPMA), 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.

	For the year ended 31 December	
	2018 SR 000	2017 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:

	For the year ended 31 December	
	2018 SR 000	2017 SR 000
Balance, beginning of the year	897	-
Fees and expenses on indirect engagement with group AlKhair Capital Dubai during the year	1,445	897
Amount paid during the year	(2,342)	-
Balance, end of the year	-	897

For the year ended 31 December 2018 and 2017, 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 2018 was SR 4.12 million (31 December 2017: SR 5.13 million), and the outstanding contribution as at 31 December 2018 is SR 375 thousand (31 December 2017: SR 367 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:

	2018 SR 000	2017 SR 000
Islamic borrowings	6,580,790	6,398,982
Cash and cash equivalents and short term deposits	(4,903,491)	(3,159,666)
Net debt	1,677,299	3,239,316
Shareholders' equity	18,705,333	18,733,550
Net debt to equity ratio	9%	17%

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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 year under review the average rate of 3 months LIBOR varied between 2.39% and 2.82% (1.34% and 1.7% for 2017) and SAIBOR varied between 2.73% and 2.98% (1.79% and 1.90% for 2017).

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

	2018 SR 000	2017 SR 000
+ 25 basis points	3,534	4,401
- 25 basis points	(3,534)	(4,401)

The net profit of the Group for the reported year 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 2018 is 6.88% (31 December 2017: 6.95%)

See notes 12 and 14 for further details.

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a) The maturity profile of assets, liabilities and equity as at 31 December 2018 and 2017 are as follows:

31 December 2018	Within 3 Months SR 000	3 months to 1 year SR 000	One year to 10 years SR 000	No fixed maturity SR 000	Total SR 000
Assets					
Investment properties, net	-	-	-	1,693,141	1,693,141
Development properties	-	349,329	-	14,148,262	14,497,591
Property and equipment, net	-	-	-	83,085	83,085
Investments in associates	-	-	-	826,621	826,621
Other assets	-	-	2,511	-	2,511
Trade receivables and others	-	4,740,877	-	-	4,740,877
Cash and cash equivalents	4,903,491	-	-	-	4,903,491
Total assets	4,903,491	5,090,206	2,511	16,751,109	26,747,317
Liabilities and equity					
Islamic borrowings	83,100	1,766,523	4,731,167	-	6,580,790
End of service indemnities	-	-	-	19,011	19,011
Trade payables and others	-	96,121	-	789,234	885,355
Zakat provisions	-	-	-	556,828	556,828
Shareholders' Equity	-	-	-	18,705,333	18,705,333
Total liabilities and equity	83,100	1,862,644	4,731,167	20,070,406	26,747,317

31 December 2017	Within 3 Months SR 000	3 months to 1 year SR 000	One year to 10 years SR 000	No fixed maturity SR 000	Total 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

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 2018 amounts to SR 62 million (31 December 2017: SR 49 million) and performance commitment through a bank guarantee for SR 74 million against receivable collected (31 December 2017: 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 2018, there were no significant claims notified (31 December 2017: None).

28- approval of the consolidated financial statements

The consolidated financial statements were approved by the board of directors and authorized for issue on February 26, 2019.

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