
KINGDOM HOLDING COMPANY
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED FINANCIAL
STATEMENTS (Unaudited)
FOR THE THREE-MONTH AND SIX-MONTH PERIODS
ENDED JUNE 30, 2014 AND LIMITED REVIEW REPORT

KINGDOM HOLDING COMPANY
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2014

	Page
Limited review report	2
Interim consolidated balance sheet	3
Interim consolidated income statement	4
Interim consolidated cash flow statement	5
Interim consolidated statement of changes in equity	6
Notes to the interim consolidated financial statements	7 – 16



LIMITED REVIEW REPORT

July 21, 2014

To the Shareholders of Kingdom Holding Company
(A Saudi Joint Stock Company)

Scope of review

We have reviewed the accompanying interim consolidated balance sheet of Kingdom Holding Company (the "Company") and its subsidiaries (collectively referred to as the "Group") as of June 30, 2014, the interim consolidated statement of income for the three-month and six-month periods ended June 30, 2014 and the consolidated statements of cash flows and changes in equity for the six-month period then ended and the related notes which form an integral part of these interim consolidated financial statements. These interim consolidated financial statements are the responsibility of the Group's management and have been prepared by them and submitted to us together with all the information and explanations which we required.

We conducted our limited review in accordance with the standard of Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants. A limited review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. The scope of such limited review is substantially less than an audit conducted in accordance with auditing standards generally accepted in Saudi Arabia, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Review conclusion

Based on our limited review, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements for them to be in conformity with accounting standards generally accepted in Saudi Arabia.

PricewaterhouseCoopers

By: _____
Omar M. Al Sagga
License Number 369

*PricewaterhouseCoopers, Kingdom Tower, P.O. Box 8282, Riyadh 11482, Kingdom of Saudi Arabia
T: +966 (11) 465-4240, F: +966 (11) 465-1663, www.pwc.com/middle-east*

KINGDOM HOLDING COMPANY
(A Saudi Joint Stock Company)
Interim consolidated balance sheet (Unaudited)
(All amounts in Saudi Riyals thousands unless otherwise stated)

		June 30,	
	Note	2014	2013
Assets			
Current assets			
Cash and cash equivalents		982,237	944,166
Held for trading investments		2,257,311	1,102,745
Accounts receivable and other assets		1,220,121	1,244,908
Net assets held for sale		180,111	180,111
		<u>4,639,780</u>	<u>3,471,930</u>
Non-current assets			
Available for sale investments	3	13,981,651	12,772,582
Investments in associates and joint venture	4	17,564,028	17,693,126
Investments in real estate	5	2,148,502	1,694,544
Property and equipment, net		6,320,744	6,341,591
Intangible assets	6	1,856,270	1,850,322
Other long term assets		392,478	400,623
		<u>42,263,673</u>	<u>40,752,788</u>
Total assets		<u>46,903,453</u>	<u>44,224,718</u>
Liabilities			
Current liabilities			
Bank borrowings and term loans	7	1,390,437	1,251,836
Accounts payable, accrued expenses and other liabilities		870,732	787,787
Dividends payable		327,971	275,162
		<u>2,589,140</u>	<u>2,314,785</u>
Non-current liabilities			
Bank borrowings and term loans	7	11,699,099	11,264,550
Other long term liabilities		382,513	408,356
		<u>12,081,612</u>	<u>11,672,906</u>
Total liabilities		<u>14,670,752</u>	<u>13,987,691</u>
Equity			
Equity attributable to shareholders of the Company:			
Share capital		37,058,823	37,058,823
Statutory reserve		390,460	316,213
Retained earnings		1,109,001	1,049,936
Unrealized loss from available for sale investments	3	(6,743,793)	(8,416,850)
Foreign currency translation adjustments and other		(111,464)	(163,726)
Total shareholders' equity		<u>31,703,027</u>	<u>29,844,396</u>
Minority interests		529,674	392,631
Total equity		<u>32,232,701</u>	<u>30,237,027</u>
Total liabilities and equity		<u>46,903,453</u>	<u>44,224,718</u>
Contingencies	14		

The notes on pages 7 to 16 form an integral part of these interim consolidated financial statements.

KINGDOM HOLDING COMPANY
(A Saudi Joint Stock Company)
Interim consolidated income statement (Unaudited)
(All amounts in Saudi Riyals thousands unless otherwise stated)

		Three-month periods ended June 30,		Six-month periods ended June 30,	
	Note	2014	2013	2014	2013
Revenues					
Hotels and other operating revenues		586,025	542,872	1,098,979	1,039,053
Dividends income		88,355	85,694	89,478	104,743
Income/(loss) from associates and joint venture, net	4	8,280	23,083	(99,304)	(50,177)
Income from and gain on investments and others	9	203,479	120,384	534,489	336,550
Other		10,800	25,308	14,404	32,333
Total revenues		896,939	797,341	1,638,046	1,462,502
Costs and expenses					
Hotels and other operating costs		(365,684)	(352,170)	(698,130)	(682,945)
General and administrative		(110,981)	(112,263)	(209,479)	(221,556)
Total costs and expenses		(476,665)	(464,433)	(907,609)	(904,501)
Gross profit		420,274	332,908	730,437	558,001
Depreciation		(54,293)	(55,021)	(113,943)	(111,882)
Reversal of impairment loss	10	-	50,000	-	74,700
Income from operations		365,981	327,887	616,494	520,819
Finance charges, net		(110,776)	(116,030)	(209,383)	(188,087)
Income before minority interests, zakat and tax		255,205	211,857	407,111	332,732
Minority interests		(12,518)	409	(20,187)	5,898
Income before zakat and tax		242,687	212,266	386,924	338,630
Zakat and tax	11	(31,005)	(31,066)	(48,854)	(47,342)
Net income for the period		211,682	181,200	338,070	291,288
Earnings per share (Saudi Riyals):					
▪ Income from operations	12	0.10	0.09	0.17	0.14
▪ Net income for the period		0.06	0.05	0.09	0.08

The notes on pages 7 to 16 form an integral part of these interim consolidated financial statements.

KINGDOM HOLDING COMPANY
(A Saudi Joint Stock Company)
Interim consolidated cash flow statement (Unaudited)
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	Six-month periods ended June 30,	
		2014	2013
Cash flow from operating activities			
Income before zakat and tax		386,924	338,630
<u>Adjustments for non-cash items</u>			
Depreciation		113,943	111,882
Loss from associates and joint venture, net	4	99,304	50,177
Income from and gain on investments and other, net	9	(534,489)	(336,550)
Reversal of impairment loss	10	-	(74,700)
Foreign exchange gain		(207)	(23,323)
<u>Changes in working capital</u>			
Accounts receivable and other assets		(60,877)	(92,371)
Movement in held for trading investments		379,788	401,074
Movement in investment in real estate, net		(3,970)	(8,037)
Other long term assets		(51,331)	7,623
Accounts payable, accrued expenses and other liabilities		(126,663)	75,558
Other long term liabilities		(29,071)	(18,993)
Net cash generated from operating activities		173,351	430,970
Cash flow from investing activities			
Acquisition of available for sale investments		-	(468,750)
Additions to associates		-	(76,408)
Dividends from associates		-	23,923
Property and equipment, net		(17,130)	132,501
Net cash utilized in investing activities		(17,130)	(388,734)
Cash flow from financing activities			
Bank borrowings and term loans, net	7	120,971	418,896
Dividends paid	8	(327,970)	(275,162)
Changes in minority interests		26,192	(46,856)
Net cash (utilized in) /generated from financing activities		(180,807)	96,878
Net change in cash and cash equivalents		(24,586)	139,114
Cash and cash equivalents at beginning of period		1,006,823	805,052
Cash and cash equivalents at end of period		982,237	944,166
Supplemental schedule of non-cash information			
Decrease in unrealized loss from available for sale investments, net	3	284,252	1,908,473
Cost of available for sale investments transferred to held for trading investments	3	549,099	317,516

The notes on pages 7 to 16 form an integral part of these interim consolidated financial statements.

KINGDOM HOLDING COMPANY
(A Saudi Joint Stock Company)
Interim consolidated statement of changes in equity (Unaudited)
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	Shareholders' equity					Minority interests	Total equity
		Share capital	Statutory reserve	Retained earnings	Unrealized loss from available for sale investments	Foreign currency translation adjustments and other		
January 1, 2014		37,058,823	390,460	1,426,872	(7,028,045)	(241,839)	374,000	31,980,271
Net income for the period		-	-	338,070	-	-	20,187	358,257
Dividends	8	-	-	(655,941)	-	-	-	(655,941)
Net movement during the period		-	-	-	284,252	130,375	135,487	550,114
June 30, 2014		37,058,823	390,460	1,109,001	(6,743,793)	(111,464)	529,674	32,232,701
January 1, 2013		37,058,823	316,213	1,308,972	(10,325,323)	(168,322)	439,487	28,629,850
Net income for the period		-	-	291,288	-	-	(5,898)	285,390
Dividends		-	-	(550,324)	-	-	-	(550,324)
Net movement during the period		-	-	-	1,908,473	4,596	(40,958)	1,872,111
June 30, 2013		37,058,823	316,213	1,049,936	(8,416,850)	(163,726)	392,631	30,237,027

The notes on pages 7 to 16 form an integral part of these interim consolidated financial statements.




KINGDOM HOLDING COMPANY
(A Saudi Joint Stock Company)
Notes to the interim consolidated financial statements
For the three-month and six-month periods ended June 30, 2014 (Unaudited)
(All amounts in Saudi Riyals thousands unless otherwise stated)

1 General information

Kingdom Holding Company (the "Company") is a Saudi Joint Stock Company (JSC) operating in the Kingdom of Saudi Arabia. The Company was previously formed as a limited liability company and operated under commercial registration number 1010142022 dated Muharram 11, 1417H (corresponding to May 28, 1996). The Ministry of Commerce and Industry approved, pursuant to resolution number 128/S dated Jumad Awwal 18, 1428H (corresponding to June 4, 2007), the conversion of the Company into a JSC.

The objectives of the Company are hotel management and operation, general contracting, operation and maintenance, wholesale and retail trading of construction materials, foodstuff, agriculture products and metals for non-construction and petroleum products, trading of transportation equipment, advertising, commercial services, education, medical services, commercial agencies, investment and establishment of other companies.

The principal activities and the various segments of the Company and its subsidiaries (the "Group") are described in Note 13.

These interim consolidated financial statements were authorized for issue by the Company's Board of Directors on July 21, 2014.

2 Summary of significant accounting policies

A summary of principal accounting policies applied in the preparation of these interim consolidated financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

2.1 Basis of preparation

The accompanying interim consolidated financial statements have been prepared under the historical cost convention, as modified by revaluation of held for trading and available for sale investments to fair value, on the accrual basis of accounting and in compliance with accounting standards promulgated by Saudi Organization for Certified Public Accountants ("SOCPA").

The interim consolidated financial statements have been prepared in accordance with SOCPA's Standard on Interim Financial Reporting. The accounting policies used in the preparation of the interim consolidated financial statements are consistent with those used in the preparation of annual consolidated financial statements for the year ended December 31, 2013.

The interim consolidated financial statements include the assets, liabilities and the results of operations of the Company and its subsidiaries (the "Group"). A subsidiary is a company in which the Group has, directly or indirectly, long term investment comprising an interest of more than 50% in the voting capital or over which it exerts a practical control. A subsidiary company is consolidated from the date on which the Group obtains a practical control until the date such control ceases, unless the subsidiary is in reorganization, in which case the subsidiary is not consolidated. Minority interests have been calculated and reflected separately in the consolidated balance sheet and consolidated income statement. Significant balances and transactions, including unrealized gains or losses on transactions, between the Group companies have been eliminated in the interim consolidated financial statements.

The interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements as at December 31, 2013. In the opinion of management, the interim consolidated financial statements reflect all adjustments (which include normal recurring adjustments) necessary to present fairly the results of operations for the period presented.

The interim results of the operations for the six-month period ended June 30, 2014 may not represent a proper indication for the annual results of operations.

KINGDOM HOLDING COMPANY
(A Saudi Joint Stock Company)
Notes to the interim consolidated financial statements
For the three-month and six-month periods ended June 30, 2014 (Unaudited)
(All amounts in Saudi Riyals thousands unless otherwise stated)

2.2 Critical accounting estimates and judgments

The preparation of interim consolidated financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported balances of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenue and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances. Although these estimates and judgments are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

In preparing these interim consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are consistent to those applied to the consolidated financial statements for the year ended December 31, 2013.

2.3 Assets held for sale

The Group considers properties to be assets held for sale when management approves and commits to a formal plan to actively market a property or group of properties for sale and it is probable that the sale will occur within twelve months of the balance sheet date. Upon designation of an asset held for sale, the Group records the carrying value of each property or group of properties at the lower of its carrying value or its estimated fair value, less estimated cost to sell. Assets once classified as held for sale are not depreciated or amortized.

2.4 Investments

(a) Held for trading investments

Held for trading investments in readily marketable securities, which are purchased for trading purposes, are stated at market value and included under current assets. Changes in market value are credited or charged to the interim consolidated income statement.

(b) Investment in available for sale investments

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity are classified as available for sale. Such investments are included in non-current assets unless management has expressed intention of holding the investment for less than twelve months from the balance sheet date, in which case they are included in current assets. After initial recognition, investments purchased neither with the intention of being held to maturity nor for trading purposes are re-measured at fair value as follows:

- (i) Fair values of quoted securities are based on available market prices at the reporting date adjusted for any restriction on the transfer or sale of such investments; and
- (ii) Fair values of unquoted securities are based on a reasonable estimate determined by reference to the current market value of other similar quoted investment securities or is based on the expected discounted cash flows. Where fair values cannot be reliably estimated, the Group records such investments at cost.

Unrealized gains and losses are reported as a separate component of shareholders' equity until the investment is derecognized or the investment is determined to be impaired. When designation of investments is changed to held for trading, the related unrealized gain/losses on these investments are recycled from equity and recognized in the interim consolidated income statement.

(c) Associates and joint ventures

Associates and joint ventures are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates and joint ventures are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in associates and joint ventures includes goodwill identified on acquisition, net of any accumulated amortization and impairment losses, if any. Under the equity method, investments in associates and joint ventures are carried in the interim consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates and joint ventures. The interim consolidated income statement reflects the Group's share in the results of associates and joint ventures and the Group's share of post-acquisition movements in reserves, if any, is recognized in equity. When the Group's share of losses in an associate and joint venture equals or exceeds its interest in the associate and joint venture, including any other

KINGDOM HOLDING COMPANY
(A Saudi Joint Stock Company)
Notes to the interim consolidated financial statements
For the three-month and six-month periods ended June 30, 2014 (Unaudited)
(All amounts in Saudi Riyals thousands unless otherwise stated)

unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Unrealized gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associates and joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Dilution gains and losses arising in investments in associates and joint ventures are recognized in the interim consolidated income statement.

(d) Investments in real estate

Real estate investments that are being developed are recorded at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less cost to complete, re-development and selling expenses. Investments in real estate are derecognized when either they have been disposed-off or when the investment in real estate is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gains or losses on the retirement or disposal of investments in real estate are recognized in the interim consolidated income statement in the period of the retirement or disposal.

2.5 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is considered the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. Amortization expense is reported in the interim consolidated income statement.

2.6 Impairment

(a) Tangible and intangible assets

At each fiscal year end, the Group reviews the carrying amounts of its long term tangible and intangible assets to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Recoverable amounts are determined on the basis of value-in-use calculations. Where 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.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognized in the interim consolidated income statement.

(b) Financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the interim consolidated income statement. Impairment is determined as follows:

- (i) For assets carried at fair value, impairment is the difference between the carrying amount and fair value, less any impairment loss previously recognized in the interim consolidated income statement; and
- (ii) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

For impairment of available for sale investments, the unrealized gain or loss previously reported in shareholders' equity is included in the interim consolidated income statement.

KINGDOM HOLDING COMPANY
(A Saudi Joint Stock Company)
Notes to the interim consolidated financial statements
For the three-month and six-month periods ended June 30, 2014 (Unaudited)
(All amounts in Saudi Riyals thousands unless otherwise stated)

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the interim consolidated income statement. Impairment losses recognized on equity investments classified as available for sale and goodwill are not reversible.

2.7 Loans and bank borrowings

Borrowings are recognized at the proceeds received. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of those assets. Other borrowing costs are charged to the interim consolidated income statement.

2.8 Revenue

Hotel revenues are recognized when services are performed or when food and beverages are sold. Other revenues are recognized when services are provided and ultimate collection is reasonably assured. Management fees and other revenues from managed properties are recognized when performance conditions have been met, in accordance with the terms specified in the related management contracts.

Revenue from real estate leasing operations is recognized on accrual basis, effectively over the term of the lease.

Revenue from sale of real estate is recognized when the risks and rewards of ownership are transferred to the buyer, which is deemed to take place when legal title transfers to the buyer. However, in certain circumstances equitable interest in the land may vest with the buyer before legal title passes and therefore risks and rewards of ownership are transferred at that stage. In such cases, provided that the Group has no further substantive act to complete in connection with the sale of land, revenue is recognized when equitable interest in the land passes to the buyer.

Dividend income is recognized when the right to receive the dividends is established. Commission income is recognized as the commission accrues.

2.9 Segmental reporting

(a) Business segment

A business segment is a group of assets, operations or entities:

- (i) engaged in revenue producing activities;
- (ii) results of its operations are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment; and
- (iii) financial information is separately available.

(b) Geographical segment

A geographical segment is a group of assets, operations or entities engaged in revenue producing activities within a particular economic environment that are subject to risks and returns different from those operating in other economic environments.

2.10 Foreign currency translations

The interim consolidated financial statements are presented in Saudi Riyals, which is the Company's functional and Group's presentation currency. Each subsidiary in the Group determines its own functional currency, and as a result, items included in the financial statements of each subsidiary are measured using that functional currency.

At the subsidiary level, transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the interim consolidated income statement.

KINGDOM HOLDING COMPANY
(A Saudi Joint Stock Company)
Notes to the interim consolidated financial statements
For the three-month and six-month periods ended June 30, 2014 (Unaudited)
 (All amounts in Saudi Riyals thousands unless otherwise stated)

At the consolidation level, financial statements of foreign subsidiaries, not operating in a hyper-inflationary economy, are translated into the Group's presentation currency using the exchange rate at each balance sheet date for assets and liabilities, and the average exchange rate for each period for revenues and expenses. Components of equity, other than retained earnings, are translated at the rate ruling at the date of occurrence of each component. Translation adjustments are recorded as a separate component of equity.

When the economy of a country in which the Group operates is deemed hyper-inflationary, the financial statements of such Group entities are adjusted so that they are stated in terms of the measuring unit current at the end of the reporting period. This involves restatement of income and expenses to reflect changes in the general price index from the start of the reporting period and, restatement of non-monetary items in the interim consolidated balance sheet, such as property, plant and equipment and inventories, to reflect current purchasing power as at the period end using a general price index from the date when they were first recognized. The gain or loss on the net monetary position for the period is included in finance costs or income in the interim consolidated income statement.

The Group has operations in Syria. As per the information provided by the International Monetary Fund (IMF), the cumulative three year inflation rate for Syria exceeded 100 percent as of June 30, 2014, this, combined with other indicators, resulted in Syria being declared as a hyper-inflationary economy.

The main implications of above application are as follows:

- Adjustment of the historical cost of the entity's non-monetary assets and liabilities and the various items of equity from their date of acquisition or inclusion in the Group interim consolidated balance sheet to the end of period ended June 30, 2014 to reflect the changes in purchasing power of the currency caused by inflation.
- Adjustment of the interim consolidated income statement of the entity for the current period to reflect the financial gain/loss caused by the impact of inflation during the period on net monetary liabilities/assets (loss/gain of purchasing power).
- The various components of the financial statements of the entity have been adjusted for the inflation index since their generation.
- The results and financial position of the entity are translated into Saudi Riyals at the closing exchange rate at the date of that balance sheet.
- The 2013 comparative amounts of the Group interim consolidated financial statements for the entities were not restated.
- The cumulative impact of the accounting restatement to adjust for the effects of hyperinflation for the entity for periods upto January 1, 2014 is reflected in 'Foreign currency translation adjustments and other' in the interim consolidated statement of changes in equity.

The main effects on the Group's interim consolidated financial statements due to hyperinflationary accounting (which includes both indexing up and using of closing exchange rate) for the six-month period ended June 30, 2014, are as follows:

**June 30,
2014**

Increase in non-current assets with a corresponding change in equity

Saudi Riyals 287 million

Management applied the general price index (GPI) of 349.3 as at June 30, 2014 to adjust their interim consolidated financial statements.

KINGDOM HOLDING COMPANY
(A Saudi Joint Stock Company)
Notes to the interim consolidated financial statements
For the three-month and six-month periods ended June 30, 2014 (Unaudited)
(All amounts in Saudi Riyals thousands unless otherwise stated)

3 Available for sale investments

(a) Available for sale investments consist of the following:

	June 30,	
	2014	2013
International	13,546,219	12,096,963
Local and regional	435,432	675,619
	13,981,651	12,772,582

(b) The movement in available for sale investments is set out below:

	June 30,	
	2014	2013
Cost, net of impairment charge:		
January 1	21,274,543	21,038,198
Transfer to held for trading investments	(549,099)	(317,516)
Additions during the period	-	468,750
June 30	20,725,444	21,189,432
Unrealized loss, net of impairment charge:		
January 1	(7,028,045)	(10,325,323)
Decrease in unrealized loss during the period, net	783,668	2,200,267
Unrealized gain related to investments transferred to held for trading investments (Note 9)	(499,416)	(291,794)
June 30	(6,743,793)	(8,416,850)
Net carrying amount	13,981,651	12,772,582

Certain available for sale investments are used as collateral against bank borrowings and term loans of the Company and its subsidiaries (Note 7).

The Company performs an assessment to determine whether the decline in value of its available for sale investments is temporary or non-temporary. Based on this assessment, management has concluded that such a decline is considered to be temporary. In reaching to this conclusion, management has considered several factors, including; the financial performance of the investee, the fair value of the investment and information from financial analysts about the forecasted market price.

Management will continue to monitor and review its available for sale investments and assess the impact of changes in the factors referred to above to determine the need for any further impairment.

4 Investments in associates and joint venture

The movement in investments in associates and joint venture is as follows:

	June 30,	
	2014	2013
January 1	17,665,996	17,581,910
Additions during the period	-	76,408
Share in losses, net	(99,304)	(50,177)
Other movements	(2,664)	84,985
June 30	17,564,028	17,693,126

KINGDOM HOLDING COMPANY
(A Saudi Joint Stock Company)
Notes to the interim consolidated financial statements
For the three-month and six-month periods ended June 30, 2014 (Unaudited)
(All amounts in Saudi Riyals thousands unless otherwise stated)

5 Investments in real estate

	June 30,	
	2014	2013
Investments in land and related infrastructure costs - Saudi Arabia	2,054,187	1,587,217
Properties under construction and other	94,315	107,327
	2,148,502	1,694,544

6 Intangible assets

	June 30,	
	2014	2013
Goodwill	1,798,356	1,791,288
Other intangible assets	57,914	59,034
	1,856,270	1,850,322

Goodwill represents the excess of consideration paid by the Group over its interest in the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities. Most of the goodwill balance shown above resulted from the Group's acquisition of major subsidiaries in the hotel business.

Other intangible assets principally include brand names and management contracts that relate to subsidiaries that operate hotel properties. Such contracts have definite lives and are amortized over their useful economic lives.

7 Bank borrowings and term loans

	June 30,	
	2014	2013
<u>Current</u>		
Short-term loans	921,503	74,961
Revolving credit facilities	262,360	-
	1,183,863	74,961
Current portion of term loans	206,574	1,176,875
	1,390,437	1,251,836
<u>Non-current</u>		
Term loans, including long term revolving facilities	11,699,099	11,264,550
	13,089,536	12,516,386

Details of bank borrowings and term loans by Company and its subsidiaries are as follows:

	June 30,	
	2014	2013
Kingdom Holding Company (KHC)	4,974,746	5,871,463
Kingdom 5-KR-11 Limited (KR-11)	4,500,000	3,187,397
Kingdom 5-KR-35 (George V)	1,764,869	1,676,006
Kingdom Hotel Investments (KHI)	1,426,693	1,596,856
Others	423,228	184,664
	13,089,536	12,516,386

Bank borrowings and term loans are obtained from various financial institutions and are principally secured by registered mortgage and liens over several properties, deed of support, order notes, promissory notes and pledge of certain shares that are held under available for sale investments. They carry borrowing costs at normal commercial rates.

During the six-month period ended June 30, 2014, the Group had net outflow of bank borrowings and term loans of Saudi Riyals 121 million, net (2013: net inflow of Saudi Riyals 419 million).

KINGDOM HOLDING COMPANY
(A Saudi Joint Stock Company)
Notes to the interim consolidated financial statements
For the three-month and six-month periods ended June 30, 2014 (Unaudited)
(All amounts in Saudi Riyals thousands unless otherwise stated)

8 Dividends

The General Assembly of the Company, in its annual meeting held on Jumad Awwal 30, 1435H (corresponding to March 31, 2014), approved quarterly cash dividends distribution totaling to Saudi Riyals 656 million for the year as recommended by the Company's Board of Directors.

The cash distributions have to be made to all shareholders on record as of the dates approved in the General Assembly meeting.

The first and second cash distribution was made to all shareholders on record as of the date approved in the General Assembly meeting.

9 Income from and gain on investments and others

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2014	2013	2014	2013
Change in market value of held for trading investments	175,130	120,701	510,262	280,193
Others, net	28,349	(317)	24,227	56,357
	203,479	120,384	534,489	336,550

During the six-month period ended June 30, 2014, the Group designated certain investment securities to held for trading, which were previously classified as available for sale. As a result, the unrealized gain on these investments amounting to Saudi Riyals 499 million (2013: Saudi Riyals 291.8 million) has been recycled from equity and recognized in the interim consolidated income statement (Note 3). The value of existing held for trading investments increased at June 30, 2014 resulting in an unrealized gain of Saudi Riyals 11.3 million (2013: Decline of Saudi Riyals 11.6 million).

Others, net for the period ended June 30, 2014 and 2013 mainly represents gain from sale of held for trading investments amounting to Saudi Riyals 26.2 million and Saudi Riyals 56.4 million, respectively.

10 Reversal of impairment losses, net

During the six-month period ended June 30, 2013, the Company reviewed the carrying value of certain investments based on an updated valuation. This resulted in a net increase in the carrying value of Saudi Riyals 74.7 million. Accordingly, such increase was recorded as a reversal of impairment loss, which was initially recorded in prior years against these investments. No such reversals were made during the six-month period ended June 30, 2014.

11 Zakat and tax matters

Zakat and tax reported in the interim consolidated income statement consist of the following:

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2014	2013	2014	2013
Zakat provisions	6,957	3,818	11,745	7,833
Income tax provision, net	16,295	26,912	29,019	33,458
Withholding tax on foreign dividends	7,753	336	8,090	6,051
	31,005	31,066	48,854	47,342

Zakat for the period represents the amount due on the Company and its local subsidiaries. The Company's subsidiaries that are incorporated outside the Kingdom of Saudi Arabia are subject to related tax laws of the country of operations. Foreign dividends are subject to withholding taxes.

KINGDOM HOLDING COMPANY
(A Saudi Joint Stock Company)
Notes to the interim consolidated financial statements
For the three-month and six-month periods ended June 30, 2014 (Unaudited)
(All amounts in Saudi Riyals thousands unless otherwise stated)

Status of final assessments

The Company has received final assessments from the Department of Zakat and Income Tax ("DZIT") up to year 2002. During 2012, the Company received assessment from the DZIT for the years 2003 to 2010 resulting in additional zakat assessment. Management has seriously contested the matters included in the assessment and has filed an appeal providing its detailed arguments against the assessment.

12 Earnings per share

Earnings per share for the three-month and six-month periods ended June 30, 2014 and 2013 has been computed by dividing the income from operations and net income for each of the period by the number of shares outstanding during such periods of 3,706 million shares.

13 Segment information

The Group's primary activities are categorized into the three segments:

Equity

International - The principal activity includes investments in international quoted securities.

Domestic and Regional - The principal activity includes investments in securities quoted on the Saudi stock exchange, the regional stock exchanges and investments in associates - other than real estate.

Private equity - The principal activity includes investments in private equities, managed funds and other entities existing with the structure of the Group.

Hotels

The principal activity of this segment includes investments in subsidiaries and associates that are in the business of managing and owning hotel properties and related activities.

Real Estate and Domestic

Real estate - The principal activity includes investments in activities relating to ownership and development of land and real estate projects.

Domestic - The principal activity includes investments in local entities.

a) Selected financial information as of and for the period ended June 30, summarized by the above business segments, was as follows:

	Equity	Hotels	Real estate and domestic	Total
2014				
Total assets	21,268,223	18,728,206	6,907,024	46,903,453
Total liabilities	10,020,391	3,967,234	683,127	14,670,752
Revenues:				
For the three-month period ended June 30	279,217	436,258	181,464	896,939
For the six-month period ended June 30	574,877	727,274	335,895	1,638,046
Net income/(loss):				
For the three-month period ended June 30	178,450	23,335	9,897	211,682
For the six-month period ended June 30	381,388	(50,009)	6,691	338,070
2013				
Total assets	19,109,435	18,712,572	6,402,711	44,224,718
Total liabilities	9,537,810	4,085,210	364,671	13,987,691
Revenues:				
For the three-month period ended June 30	181,817	464,508	151,016	797,341
For the six-month period ended June 30	382,048	788,233	292,221	1,462,502
Net income:				
For the three-month period ended June 30	116,380	57,233	7,587	181,200
For the six-month period ended June 30	264,146	12,743	14,399	291,288

KINGDOM HOLDING COMPANY
(A Saudi Joint Stock Company)
Notes to the interim consolidated financial statements
For the three-month and six-month periods ended June 30, 2014 (Unaudited)
(All amounts in Saudi Riyals thousands unless otherwise stated)

Equity segment includes finance charges and general and administrative expenses related to the Company and Kingdom 5-KR-11 Limited (KR-11).

b) The Group has diversified investments in various segments concentrated geographically as follows:

- The activities of the Equity segment are mainly concentrated in the United States of America and the Middle East.
- The Hotels segment comprises of various 'brands' which are spread in most parts of the world, but mainly in Europe, North America, the Middle East and Asia.
- The Real Estate comprises of significant concentration of properties in the Kingdom of Saudi Arabia.

14 Contingencies

The Company and its consolidated subsidiaries are defendants in various legal claims arising in the normal course of business. Provisions have been established for certain claims, based on the information presently available. Any additional liabilities including any potential tax assessments that may result in connection with other claims are not expected to have a material adverse effect on the Group's financial position or results of operations. Also see Note 11.

15 Comparatives figures

Certain reclassifications have been made to the 2013 interim consolidated financial statements to conform with the current period presentation.