Annual Report 2011

The Height of Achievements and Performance

20

The future
Kingdom Tower
Jeddah

In the Name of Allah,
the Merciful, the Compassionate

The Custodian of the Two Holy Mosques
King Abdullah Bin Abdulaziz Al Saud

GLOBAL INVESTMENTS

His Royal Highness
Alwaleed Bin Talal Bin Abdulaziz Alsaud

In the name of God Almighty,

Dear Shareholders,

On behalf of the Board of Directors, it is with great pleasure that I present the Annual Report and audited Financial Statements of Kingdom Holding Company for the financial year ended December 31, 2011.

Our financial results, which I am sharing with you today, are a true reflection of the success in the journey we started together last year. A journey filled with remarkable achievements, which will continue to inspire us in the road ahead. Two years ago, Kingdom Holding Company successfully initiated an investment strategy which signaled our strong comeback. It was led by our most distinguished management who remained focused on continuous business development and achievements. This is why 2011 has been filled with remarkable success.

Last year achievements were unprecedented, especially in view of the markets' volatility and the dramatic collapse of some of the world economies. Our accomplishments would not have been possible without Allah's help and our prudent investment strategy that is based on an in-depth analysis of local, regional and global markets. The most promising business opportunities are meticulously scrutinized and vetted before any investment is made. Through our vision and drive, this approach has helped us achieve benchmark accomplishments, allowing Kingdom Holding Company to reclaim its premier position in the local, regional and the global markets, and to play a vital role in Saudi Arabia's economic growth.

At Kingdom Holding Company, we have adopted solid investment principles as a basis for our investment strategy. One of the Company's cardinal investment principles is diversification, be that in relation to investment sectors or geographical regions. This policy is reflected in the Company's investment portfolio which consists of assets spanning various sectors like Real Estate, Banking and Financial Services, Tourism and Hospitality Management, Health, Education, Aviation, Telecommunications, Media & Entertainment, Retail, Petrochemicals and Agriculture. We also formed long-term strategic partnerships which have been a major source of strength and drive for us in achieving our success. In 2011, the Company was able to leave a remarkable investment footprint across all continents, earning us an exceptional status and celebrated recognition around the world. In addition to adopting a strategic policy that guarantees the distribution of dividends on a yearly basis, Kingdom Holding Company's two real estate iconic projects in Jeddah and Riyadh are the result of its deep and abiding commitment to the growth of the Saudi economy and to the development of it resources, both material and human. There is a real challenge to sustain the success we have achieved so far in the coming period, especially after our decision to invest in the profitable social media sector. However, this direction requires us to make every effort to ensure that Kingdom Holding Company's driving force will remain unabated.

Our flexible investment strategy, based on diversification and the creation of powerful partnerships, will remain the basic platform upon which we will move forward. It is the vital foundation that will consolidate our position as one of the world's leading investors over the long term. We strongly believe in our vision, our huge potential and our capacity to achieve even more for Kingdom Holding Company and its shareholders. We are also determined to continue moving in a direction which preserves the supremacy, leadership and competitiveness of our businesses and investment activities… which also illustrates, by the same token, our Company's solid commitment to Saudi economic growth and human resource development, as well as our continued expansion in the global markets.

Finally, I would like to thank our dear shareholders for their valuable trust and support. We will always strive to value your confidence by working even harder and continuing our commitment to grow your investments and deliver the profits and revenues we all aspire to… with the blessings of Almighty Allah.

Alwaleed Bin Talal Bin Abdulaziz Alsaud
Chairman

HRH Prince Alwaleed Bin Talal Bin Abdulaziz Alsaud
Chairman

Eng. Talal Ibrahim Almaiman
Executive Director for Development and Domestic Investments

Talal Almaiman is a member of KHC's Board. He received his B.Sc. in Electrical Engineering from the University of Evansville in the U.S.A and MBA from university of Liverpool and holds a Certificate from an Executive Management Program at Harvard Business School. He has been Director of Domestic Investments since l996, overseeing all of KHC's development projects, as well as all of its private and public investments in Saudi Arabia. He is also a board member of the National Industrialization Company (Tasnee), Herfy Food Services and Savola Group.

Eng. Ahmed Reda Halawani

Executive Director for International and Private Equity

Ahmed Halawani is a member of KHC's Board. He holds a B.Sc. in Electrical Engineering, and an M.B.A. from Georgetown University in the U.S.A. Prior to joining KHC, he spent ten years as the CEO of Al Azizia Commercial Investment Company, a KHC associated company and a leading Saudi investment firm. He also worked in Washington DC with the private sector development division of the World Bank and at Procter & Gamble.

Mr. Sarmad Nabil Zok

Executive Director for Hotel Investments

Mr. Zok is Chairman of and Chief Executive Officer of Kingdom Hotel Investments (KHI), the leading international hotel and resort acquisition and development Company focused on high growth emerging markets. The Company has ownership interests in 22 properties in 15 countries. Mr. Zok founded KHI in 2001 and led the company's US$1.6bn Initial Public Offering in 2006. In 2010, KHI was taken private and thus became 100% owned by KHC.

Additionally, Mr. Zok is a Board Director of Kingdom Holding Company (KHC) and a member of the company's Investment Committee where he is responsible for KHC's global hotel portfolio. This includes interests in management companies such as Four Seasons Hotels & Resorts, Fairmont Raffles Hotels International and Mövenpick Hotels and Resorts AG, as well as international real estate such as the George V in Paris, the Savoy in London and the Plaza in New York. Mr. Zok is also a member of the Board of Directors of Four Seasons Hotels & Resorts, Fairmont Raffles Hotels International and Mövenpick Hotels and Resorts AG.

Previously, Mr. Zok headed Forte PLC's development effort in emerging markets and worked at HVS International, a leading hotel consulting and valuation firm, covering European markets. Prior to this Mr. Zok gained operational experience with Hilton International.

Mr. Zok holds a Bachelor of Science in Hotel Management from the University of Surrey and a Masters of Arts in Property Valuation and Law from City University Business School in London. He is fluent in English, French and Arabic.

Mr. Shadi S. Sanbar

Chief Financial Officer

Shadi Sanbar was appointed as KHC's Chief Financial Officer in April 2007. Since 2005, he has been reporting to Prince Alwaleed as special advisor. He holds a B.A. from the University of California in Los Angeles, and an M.B.A. from the University of Oklahoma. He is also a U.S. CPA. Mr. Sanbar began his career in 1973 with Arthur Andersen in Los Angeles. He transferred to Andersen's Riyadh office in 1994 and was appointed two years later as Managing Partner for the Assurance and Business Advisory for Andersen's Middle East practice. In 2002, Andersen merged with Ernst & Young. Mr. Sanbar is also a member of the Board of Directors of Four Seasons Hotels & Resorts and Fairmont Raffles Hotels.

MANAGEMENT & BOARD OF DIRECTORS

HRH Prince
Alwaleed Bin Talal Bin Abdulaziz Alsaud

Eng. Talal Ibrahim Almaiman

Mr. Saleh Ali Al Sagri

Eng. Ahmed Reda Halawani

Dr. Khaled Abdullah Al Souhem

Mr. Sarmad Nabil Zok

Mr. Taher Mohammed Omar Agueel

Mr. Saleh Ali Al Sagri
Independent Board Member

Mr. Saleh Ali Al Sagri, a Saudi citizen, is a member of the Company's Board of Directors. He was born in 1953. In 1974, he received his Bachelor's degree in Business Administration from Manchester University in the United Kingdom. Mr. Al Sagri is the founder, chairman of the board and executive chairman of Safari Co., a private company that has been operating in the field of trade, contracting works and maintenance for 23 years. Previously, he spent 11 years working as an executive director of Al Sagri Trade Establishment. Mr. Al Sagri is also chairman of the board of Mediterranean Insurance & Reinsurance Co. (MEDGULF).

Dr. Khaled Abdullah Al Souhem
Independent Board Member

Dr. Khaled Al Souhem, a Saudi citizen, is a member of the Company's Board of Directors. He was born in 1959. In 1996, he gained a PhD in human resources administration from the University of Wales (Cardiff), UK. He also received a higher Diploma in Social Sciences from the same University in 1993, as well as a Bachelor's degree in Communications from King Saud University, Saudi Arabia, in 1986. Before becoming a member of the Board of Directors of the Company, Dr. Al Souhem held several executive functions at the Saudi Telecom Co. namely, General Manager of Recruitment and Personnel Staffing and Planning. He is currently the General Manager of HR development at Saudi Telecom Co. Prior to this period, Dr. Al Souhem worked at KHC for 4 years as an Assistant Executive Manager for Human Resources and Administrative Affairs. He is also member in several professional organizations such as the Saudi Organization for Management and the Arab Association for Human Resources and the American Association for Human Resources.

Mr. Taher Mohammed Omar Agueel
Non Executive Board Member

Mr. Taher Agueel, a Saudi citizen, is a member of the Company's Board of Directors. He was born in 1959. He holds bachelor and master's degrees in industrial engineering from the University of Texas, USA (having received his master's degree in 1984). He is currently Executive member, Board of Directors & Financial Advisor of National Air Services Ltd. Co. (NAS). He has in the past assumed many positions, including two years as Managing Director of Financial Services Co. (Deutsche Al-Azizia), head of the compound financing sector in the National Commercial Bank, as well as many other key positions in Saudi Industrial Investment Fund. Mr. Taher is a member of the industrial committee of the Commercial & Industrial Chamber in Jeddah, and Board member of the Gulf General Cooperative Insurance Company.

The Board of Directors' Report

To the Shareholders of the Kingdom Holding Company (KHC) for the financial year ended 31 December 2011

Introductory Note

The Board of Directors of the Kingdom Holding Company is pleased to submit hereinafter to the Company's shareholders the 2011 Annual Report that details the Company's performance and achievements during the financial year ended 31 December 2011, highlighting the main sectors and their various activities. The Annual Report includes also the Company's final Audited Statements for the financial year ended 31 December 2011 along with the Notes to the Financial Statements that are considered part of the Financial Statements and the Auditors' Report.

Consolidated revenues for the financial year ended 31 December 2011 amounted to SR 3,202 million compared to SR 3,743 million for the year ended 31 December 2010. Consolidated net income for the year 2011 amounted to SR 639.6 million compared to the Consolidated net income for the year 2010 amounting to SR 605.2 million. Accordingly, the profit per share reached SR 0.17 for the year ended 31 December 2011 compared to SR 0.15 for the year ended 31 December 2010.

The Board of Directors is confident that the financial results of KHC will keep on growing thanks to the implementation of the Company's new strategy set in 2009 through the diversification of its investment portfolio to target several key sectors. The Board firmly believes in the Company's capacity to achieve promising growth and the best profits in the future; it also has complete trust in the combined efforts of the business team involved to consistently develop the business for a new successful stage. The discussed financial results reflect the true success of the strong comeback to the achievements and results path we always seek, and to promoting our position as one of the most prominent long term strategic investors.

In conclusion, the Board of Directors extends its thanks to the Company's shareholders for their support and trust; It declared that all members have relinquished their rights to any compensations and rewards they are entitled to against their membership to the Board or any other trip and transportation allowances for the year 2011.

Company's Main Activities
The Company's objectives are general contracting, operation and maintenance, retail and wholesale trading of construction, agricultural and food products, trading services, buying of lands to develop real estate projects for the purpose of renting or selling.

Overview of Subsidiaries
The Company carries over its activities through the below listed subsidiaries:

A- Kingdom Company 5 - KR - 11 ltd (KR-11)
KR-11 is a limited liability company incorporated in the Cayman Islands. The company's principal activity represents investments in international quoted securities, through its wholly owned subsidiaries.

B- Kingdom Company 5 - KR - 100 ltd (KR-100)
KR-100 is a limited liability company incorporated in the Cayman Islands. The company's principal activity represents ownership and management of funds, through its associates.

C- Kingdom Company 5 - KR - 132 ltd (KR-132)
KR-132 is a limited liability company incorporated in the Cayman Islands. The company's principal activity includes holding investments in the following subsidiaries and associates that own and manage hotels and chains:

Company Name	% of Ownership	
	2011	2010
Kingdom 5 KR 35 Group (George V) – France A limited liability company incorporated in the Cayman Islands, it owns the George V Hotel in France (direct and indirect ownership with Kingdom Hotel Investments Company)	100	100
Kingdom Hotels Company Toronto Ltd - (Toronto) The Company owns 100% of Four Seasons Hotel In Toronto - Canada	100	100

Kingdom Hotel Investments (KHI) The company was established in the Cayman Islands in May 2000 with the purpose to acquire and develop high-standard hotels in various parts of the world. The company carries out its hotel activities in 4 geographical areas: the Middle East, Africa, Asia, and Europe. The Company doesn't manage directly any of the hotels; the Four Seasons Hotels and Resorts, Fairmont Hotels and Resorts, and the Mövenpick Hotels and Resorts have been chosen to manage directly those hotels on behalf of the company.	100	100

Kingdom Holding Company owns shares in the following local and foreign subsidiaries:

Company Name	% of Ownership	
	2011	2010
Kingdom Schools Company Ltd (The Schools) – Saudi Arabia The Kingdom Schools Company started its operations in 2000 in Riyadh. It owns and manages the Kingdom Schools.	47	47
Fashion Village Trading Company Ltd (SAKS) – Saudi Arabia The company enjoys the exclusive privilege right in Saudi Arabia from Saks Fifth Avenue. The company manages Saks shops in Riyadh and Jeddah, which showcase the top international brands.	71.8	71.8
Medical Services Projects Company Ltd (Hospital) – Saudi Arabia The company owns and manages Kingdom Hospital and the Consulting Clinics in Riyadh.	74	74
Consulting Clinics SAL – Beirut (Clinic) – Lebanon	50.4	50.4
Kingdom Agriculture Development Company (KADCO) – Egypt Established in 1997 for land rehabilitation and for the development of agricultural projects in Egypt.	100	100

Overview of Associate Companies:

Kingdom Holding Company owns shares in the following international Associate companies:

Company Name	% of Ownership	
	2011	2010
Fairmont Raffles Holdings International (FRHI) – Canada FRHI is owned via Kingdom Company 5 – KR – 132 ltd (KR-132) in the Cayman Islands. Fairmont Raffles is a leading international company that owns a group of hotels around the world and operates under the umbrella of Fairmont Raffles Swiss Hotel. The company also operates and manages private high-end housing units.	35	58.3
Four Seasons Holding Inc. (FSH Inc.) – Canada FSH is owned via Kingdom Company 5 – KR – 132 ltd (KR-132) in the Cayman Islands. Four Seasons is a leading international company that owns a group of hotels around the world and operates under the umbrella of Four Seasons Hotels and Resorts. The company also runs and manages private high-end housing units.	47.5	47.5

Mövenpick Hotels and Resorts AG (Mövenpick) – Switzerland Owned via Kingdom Company 5 – KR – 132 ltd (KR-132) in the Cayman Islands. Mövenpick is a leading international company that owns a group of hotels around the world and operates under the umbrella of Mövenpick Hotel. The Company also runs and manages private high-end housing units.	33.3	33.3
Breezeroad Ltd (Savoy) – United Kingdom Breezeroad Ltd is owned via Kingdom Company 5 – KR – 132 ltd (KR-132) in the Cayman Islands. It owns the historic landmark, the Savoy Hotel in London, that is managed by the Fairmont Company.	50	50
Kingdom XXII (USA) Limited (Plaza) USA Owned via the Kingdom Company 5 – KR – 132 ltd (KR-132) in the Cayman Islands - Hotel - Condominium It owns the historic landmark, the Plaza in New York, that is managed by the Fairmont Company.	50 25	50 25
Kingdom Zephyr Africa Management Company A management company specialized in direct investments based in New York USA – it is responsible for managing the company’s investment funds in Africa.	50	50
Pan Commonwealth African Partners Fund Ltd **Pan African Investment Partners Fund Ltd 1 and 2** Funds for asset management in Africa.	30 30	30 30

Kingdom Holding Company owns shares in the following local and regional Associate companies:

Company Name	% of Ownership	
	2011	2010
Real Estate Investment Company (Compound) – Saudi Arabia Established in 1997. It owns and manages a luxurious residential compound in a distinct location in Riyadh.	38.9	38.9
The Trade Centre Company Ltd. (Kingdom Centre) – Saudi Arabia The Company that owns Kingdom Centre in Riyadh, which is considered one of the most prominent modern landmarks in Saudi Arabia.	36	36
Jeddah Economic Company Ltd - Saudi Arabia Established in 2008. It owns and manages the Kingdom City project in Jeddah.	33.35	40
National Air Services (NAS) – Saudi Arabia NAS owns and manages an economic airline license in the KSA.	35.8	35.8
Saudi Research and Marketing Group (SRMG) – Saudi Arabia SRMG is a publicly listed company on the Saudi stock market. It publishes a number of daily and weekly newspapers and magazines.	29.9	29.9

Company’s Plans and Future Outlook

The Company intends to continue targeting its investments towards the existing sectors namely real estate, through the 2 projects it is pursuing: Kingdom City/Riyadh and Kingdom City/Jeddah; hotels through the enhancement of its investment portfolio in the hotels sector by building on the administrative skills and the good reputation of its subsidiaries and affiliates and the attributes of each of its hotels. In addition to real estate and hotels, the Company will continue looking for profitable investment opportunities in other sectors.

2011 Highlights

Real Estate Sector, Local and Regional Investments

- The construction contract with Bin Laden Group for building the 1,000-meter high tower (the world's highest) in the City of Jeddah in Saudi Arabia within the Kingdom City - Jeddah project has been signed. The Jeddah Economic Company will start building the tower within the first phase located in the North of Jeddah over a surface of 5.3 million square meter overlooking Charm Obhur, on the Red Sea coast.

  The flat surface of the towers reaches 500,000 square meters and includes the Four Seasons Hotel, the Four Seasons residential apartments, residential units, and class A offices, private residential units, and the highest viewing platform in the world, in addition to several other facilities. The Kingdom Tower cost is estimated at SR 4.6 billion (USD 1.2 billion) and the cost for Kingdom City at SR 75 billion (USD 20 billion).

- The investment status in The Trade Centre Company Ltd. (Kingdom Centre), owner of the Kingdom Centre in Riyadh was changed from a subsidiary to an associate company with a fair value making a total profit of SR 171 Million due to some changes that made the company lose its control of it.

- The contract for the infrastructure Master Design of the "Kingdom City" project located in East Riyadh over a surface of 16 million square meters has been signed. The contract includes carrying out the environmental and traffic-related studies, the coordination and approval of all master planning elements, engaging and managing the traffic impact study and environmental impact assessment sub-consultants and other studies required to complement and complete the Master Plan in the role of the local master planner, including all liaison with local authorities.

- Selling of 1 million square meters of land from Kingdom City/Riyadh, the western part of the land to Real Estate Investment Company (REIC) for the value of SR 250 million to establish a second Kingdom residential City. The company was granted a bank loan from the Saudi Fransi Bank in order to finance the project.

- It has been announced that the establishment of the second Four Seasons Hotel in Saudi Arabia is to be located in Kingdom Oasis project within Kingdom City project. The Hotel will include 43 suites and rooms, 75 luxurious private villas, a variety of restaurants and entertainment stations, a complete health club for men and women and an external garden overlooking the artificial lake.

- The 13,550 square meters expansion of Kingdom Commercial Centre has been completed with a total cost of SR 43.8 Million. Fourty four rooms and suites were added to the Four Seasons Hotel.

Hotels and Hotel Management Companies:

- Kingdom Hotel Investments, (a wholly owned subsidiary) inaugurated in December 2011, the Four Seasons Marrakesh in Morocco under the patronage of the Chairman of the Board Prince Alwaleed Bin Talal and Prince Moulay Rashid for an approximate cost of USD 164 million. Also, KHI inaugurated in January 2011, the Swissôtel Kunshan in China for an approximate cost of USD 61 million, and inaugurated in February 2011, the Raffles Praslin Seychelles Resort for an approximate cost of USD 145 million.

Private and International Investment Sector

- The Company and the Chairman of the Board, Prince Alwaleed Bin Talal, purchased a strategic stake in the social network Twitter for a value of SR 1,125 million (USD 300 million). This deal came as a result of months of negotiations between both parties along with a close follow up on Twitter and a detailed due diligence study.

- With the Company and the Chairman of the Board, Prince Alwaleed Bin Talal, subscribed SR 1,500 Million (USD 400 Million) towards Glencore International AG initial public offering (IPO). This represents 3.6% of the value of Glencore's IPO; the Company's stake amounted to SR 225 million (USD 60 million). Glencore's main activities are the production and marketing of commodities used for industrial activities around the globe and is listed on the London Stock Exchange.

- In partnership with Bahrain's Batelco Group, the Company signed a memorandum including non binding conditions dated April 6, 2011 with the Kuwaiti Mobile Communication Company (Zain-Kuwait) related to the possible acquisition of Zain's stake (25%) in the Saudi Mobile Communication Company (Zain KSA). The Board of Director of Zain KSA agreed on starting the due diligence after signing the memorandum between Zain KSA, Batelco and the Company. On September 29, 2011, the Zain Kuwait reached an agreement with the consortium formed by the Company and Batelco to cease the take over process of Zain KSA.
- A friendly settlement was signed with the Egyptian Ministry of Agriculture and Land Reclamation for the Toshka land project located in Southern Egypt, which is owned by Kingdom Agriculture Development Company - KADCO (one of the wholly-owned subsidiaries). The settlement guaranteed the legal and financial rights of each party, whereby both parties agreed that Kingdom Agriculture Development Company keeps the ownership of 10,000 acres in addition to 15,000 acres for development ending with ownership, and returned the remaining 75 thousand acres to the Egyptian Ministry of Agriculture.
- Kingdom Zephyr Company Fund invested USD 50 million in the First Hydrocarbon Nigeria Limited FHN in Nigeria. The transaction was through the second Kingdom Zephyr fund. The First Hydrocarbon Nigeria was established in 2009 to capitalize on the exceptional opportunities in the oil and gas industries. This investment will support the company in achieving its goal to become a leader in this promising sector in Nigeria.

Dividends Distribution Policy

Distribution of dividends to Shareholders is governed by certain rules and regulations stated in the Company's bylaws whereby the Company is required to transfer 10% of its net profits after the deduction of Zakat to the statutory reserve. The Assembly General Meeting (AGM) may stop this transfer when it reaches 50% of the Company's paid up capital.

The dividends distribution policy is decided based on the Company's financial performance, market and economic conditions in general, in addition to other factors including the needs of prospective investment opportunities, re-investment, cash flow and capital requirements and business expectations and the effect of those dividends to be distributed on the Company amongst other factors including regulatory considerations.

Moreover, the Board of Directors ratified in its meeting held on Wednesday 15 December 2010 a policy for dividend distribution to shareholders on a quarterly basis. The shareholders approved the above decision during the third Assembly General Meeting on 27 March 2011.

Social Responsibility

The Company, through its local subsidiaries (Trade Center Company, Kingdom Hospital and Kingdom Schools), has effectively supported humanitarian and philanthropic initiatives in the Saudi society, through organization of exhibitions, implementation of awareness programs, support of charity societies and grant of scholarships.

Meetings of the Board of Directors:

The Board of Directors held (7) meetings this year. The number of meetings attended by each member is detailed below:

Member Name	Membership Type	Meeting Date						
		16/1	20/2	27/3	19/4	18/7	18/10	28/11
His Royal Highness Prince Alwaleed Bin Talal Bin Abdulaziz Alsaud	Chairman of the Board	✓	✓	✓	✓	✓	✓	✓
Eng. Talal Ibrahim Almaiman	Executive	✓	✓	✓	✓	✓	✓	✓
Eng. Ahmed Reda Halawani	Executive	✓	✓	✓	✓	✓	✓	✓
Mr. Sarmad Nabil Zok	Executive	✓	✓	✓	✓	✓	✓	✓
Mr. Saleh Ali Al Sagri	Independent	✓	✓	×	✓	✓	✓	×
Mr. Taher Mohammed Omar Agueel	Non Executive	✓	✓	✓	✓	✓	✓	✓
Dr. Khaled Abdullah Al Souhem	Independent	✓	✓	✓	✓	✓	✓	✓

Shares owned by Board of Directors members, senior executives, their spouses and minor children and stakeholders:

Name	Membership Type	Companies where Board Members are Members	Number of shares	
			2011	2010
His Royal Highness Prince Alwaleed Bin Talal Bin Abdulaziz Alsaud	Chairman of the Board Non Executive	NA	3,520,588,235	3,520,588,235
Eng. Talal Ibrahim Almaiman	Executive Board Member for Development and Domestic Investments	Board member of the (National Industrialization Company)	1,176,470	1,176,470
Eng. Ahmed Reda Halawani	Executive Board Member for Direct and International Investments	Board member of the National Air Services (NAS) Company	1,593,137	1,176,470
Mr. Sarmad Nabil Zok	Executive Board Member for Hotel Investments	NA	-	-
Mr. Saleh Ali Al Sagri	Independent	Chairman for the Mediterranean & Gulf Insurance & Reinsurance Co (MEDGULF)	27,058,764	27,058,764
Mr. Taher Mohammed Omar Agueel	Non Executive	Board member of the National Air Services (NAS) Company Board member of the Gulf General Cooperative Insurance Company	1,000	1,000
Dr. Khaled Abdullah Al Souhem	Independent	NA	1,000	588
Mr. Shadi S. Sanbar	CFO	NA	2,336,470	1,926,470

Compensations and remunerations granted to the Board of Directors and senior executives including the CFO

	Non Executive Board Members	Executive Board Members	Senior Managers and CFO
Salaries	-	-	3,375,000
Benefits	-	-	1,687,500
Bonuses	-	-	11,087,238
Compensation for Assemblies attendance	-	-	-

Committees:

Investment Committee

The Committee controls the overall investments for the Company. It is entrusted with the adoption of major investment decisions on behalf of the Board of Directors. The Board of Directors must ratify such decision at a later stage and review the performance and acquisition of investments.

The Committee held (5) meetings during the year and is comprised of the following members:

Name	Title
His Royal Highness Prince Alwaleed Bin Talal Bin Abdulaziz Alsaud	Head of the Committee
Eng. Talal Ibrahim Almaiman	Member
Mr. Sarmad Nabil Zok	Member
Eng. Ahmed Reda Halawani	Member
Mr. Shadi S. Sanbar	Member

Audit Committee

The Committee supervises and evaluates risk assessment, management policies and procedures, operational and financial reports. The Committee also reviews the Company's financial statements and internal controls.

The Committee held (3) meetings during the year. The Committee is comprised of the following members:

Name	Title
Mr. Taher Mohammed Omar Agueel	Head of the Committee
Mr. Saleh Ali Al Sagri	Member
Dr. Khaled Abdullah Al Souhem	Member

This year, the Committee entered into contract with a leading professional internal audit firm. The firm scope of work is to evaluate risk assessment, management policies and procedures and internal controls. It is worth noting that external auditors audit the effectiveness of the policies and procedures in protecting the Company's assets, in assessing risks, and evaluation of the Company's efficiency. No weaknesses were detected in the Company's policies and procedures.

Nomination and Compensation Committee

The Committee is responsible for nominating the Board members and assisting the Board in setting the plans and policies related to the compensations and review them and ratify them.

The Committee is comprised of the following members:

Name	Title
Dr. Khaled Abdullah Al Souhem	Head of the Committee
Mr. Taher Mohammed Omar Agueel	Member
Mr. Saleh Ali Al Sagri	Member

Declarations of the Board of Directors for Corporate Governance Requirements:

According to the regulations issued by the Capital Market Authority concerning the registration and inclusion system and the corporate governance regulations regarding the necessity of stating in the Board of Directors' Annual Report all the items required according to the annual report form, the Board of Directors declares the following:

- The Company did not receive any notifications from its shareholders regarding any change in their ownership percentage during the year 2011.
- There is currently no stock option scheme and there are no convertible bonds available for any party whatsoever.
- No agreement or cession, assigning profits or any other substantial interest, has been contracted with any of the shareholders or any of the Company's executives, employees or subsidiaries.
- It does not have any preferred shares or shares enjoying vote priority– whether for the shareholders, members of the Board of Directors or its affiliates. All the Company's shares are ordinary shares of equal nominal value, voting rights and other rights according to the regulations.

- No contract, having the Company as a party, was concluded, nor any contract where there is or was a substantial interest for any of the members of the Company's Board of Directors, the Chairman, the CFO or any person related to any of the aforementioned.
- The Board of Directors declares that all its members have declined accepting any remunerations and compensations due to them for their membership in the Board of Directors as well as all travel allowances or expenses, transportation and other allowances for the year 2011.
- His Royal Highness Prince Alwaleed Bin Talal, Chairman of the Board, has relinquished his 9.25 Halalas for each share he owns of the quarterly profits amounting to 37 Halalas per share from his part of the cash distributions proposed for the whole year amounting to SR 325.6 Million per quarter and SR 1302.4 Million for the entire year.
- No any other investments or provisions for the Company's employees were created other than end of service provisions.
- The Company's consolidated financial statements as at 31 December 2011 have been carried out pursuant to the accounting standards issued by the Saudi Organization for Certified Public Accountants (SOCPA) and fairly present the financial position of the Company, that are in accordance with SOCPA, and that the Company has all necessary resources and potential to pursue its activities in the future.
- The Company's accounting books were duly prepared.
- There is no doubt related to the capability of the Company in carrying on with its activities.
- The internal control policy was duly established and efficiently implemented.
- The Company wasn't subject to any sanctions or provisional seizure from the financial market committee or any other judicial, regulatory or supervisory party.

The Company would like also to confirm that it has complied with all corporate governance regulations issued by the CMA, except for:

B6- Voting Rights	
Did you use the cumulative voting means on the clause dedicated to choosing the Board of Directors members in the General Assembly?	The voting for choosing the Board members as per the company's articles of associations is done in the traditional way in accordance with company's articles of associations. However, there will be a mention to amend the Company's Articles of associations. In 2012, shareholders will be called to attend an Extraordinary Meeting in order to amend the company's articles of associations to apply the cumulative voting means on the clause dedicated to choosing the Board of Directors members in the General Assembly.

E12- Formation of the Board of Directors:	
The number of independent board members should not be less than (2) or (33.3%) of the board's members, depending which is more numerous	When the Remuneration and Compensation Committee was performing the annual review for the independence of the members of the Board of Directors, it noted that Mr. Taher Agueel had joined the Board of Directors of the National Air Services company (NAS) one of the Company's subsidiaries which led to changing the status of his membership from an independent member to a non executive member. However, since it is difficult to appoint an independent Board member in the middle of the financial year given the several activities of the Company and the related issues, the Company has hence appointed a new independent member at the beginning of 2012.

In conclusion, His Royal Highness, Chairman of the Board, and all the Board members would like to extend their thanks and gratitude to the Custodian of The Two Holy Mosques, His Royal Highness the Crown Prince and the honorable government for all their care, concern and ongoing support for the welfare and safety of the country and its citizens. They would also like to extend their thanks to the Company's shareholders for their precious trust and constant support, hoping for further exceptional achievements in the future. The Board of Directors would like to seize this opportunity to express its utmost gratitude and appreciation to all the employees in the Company's departments and subsidiaries for their extensive efforts during the year 2011, looking forward to further prosperity and progress in the years to come.

God Bless

Kingdom Holding Company

(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2011
AND INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

February 22, 2012

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

Scope of audit

We have audited the accompanying consolidated balance sheet of Kingdom Holding Company (a Saudi Joint Stock Company) (the "Company") and its subsidiaries (the "Group") as of December 31, 2011 and the related consolidated statements of income, cash flows and changes in equity for the year then ended, and the notes which form an integral part of the consolidated financial statements. These consolidated financial statements, which were prepared by the Company in accordance with Article 123 of the Regulations for Companies and presented to us with all information and explanations which we required, are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified opinion

In our opinion, such consolidated financial statements taken as a whole:

- Present fairly, in all material respects, the financial position of the Group as of December 31, 2011 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in Saudi Arabia appropriate to the circumstances of the Group; and

- Comply, in all material respects, with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of consolidated financial statements.

PricewaterhouseCoopers

By ____________
Sami E. Farah
License Number 168

CONSOLIDATED BALANCE SHEET

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	As at December 31, 2011	2010
Assets			
Current assets			
Cash and cash equivalents	3	**1,267,372**	1,298,605
Held for trading investments	4	**238,897**	-
Accounts receivable	5	**221,872**	302,938
Other assets	6	**997,207**	867,863
Net assets held for sale	8	**140,185**	93,850
		2,865,533	2,563,256
Non-current assets			
Available for sale investments	9	**8,482,091**	10,172,880
Investments in associates	10	**17,203,912**	16,690,681
Investments in real estate	11	**1,748,528**	1,667,942
Property and equipment, net	12	**7,732,704**	9,154,420
Intangible assets	13	**1,606,366**	1,810,821
Other long term assets	14	**50,756**	128,270
		36,824,357	39,625,014
Total assets		**39,689,890**	42,188,270
Liabilities			
Current liabilities			
Bank borrowings and term loans	15	**1,458,510**	1,230,652
Accounts payable	16	**263,449**	240,651
Accrued expenses and other liabilities	17	**702,785**	796,472
		2,424,744	2,267,775
Non-current liabilities			
Term loans	15	**10,864,463**	10,829,502
Other long term liabilities	19	**460,505**	694,295
		11,324,968	11,523,797
Total liabilities		**13,749,712**	13,791,572
Equity			
Equity attributable to shareholders of the Company:			
Share capital	20	**37,058,823**	37,058,823
Statutory reserve		**245,506**	181,545
Retained earnings	20	**1,222,929**	1,197,599
Unrealized loss from available for sale investments	9	**(13,066,612)**	(11,269,920)
Foreign currency translation adjustments and other		**(14,349)**	(86,636)
Total shareholders' equity		**25,446,297**	27,081,411
Minority interests	21	**493,881**	1,315,287
Total equity		**25,940,178**	28,396,698
Total liabilities and equity		**39,689,890**	42,188,270
Contingencies and commitments	26,27		

The notes on pages 7 to 32 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	Year ended December 31, 2011	2010
Revenues			
Hotels and other operating revenues		**2,129,718**	2,726,313
Sales of real estate	11	**250,000**	-
Dividends income	22	**71,607**	55,266
(Loss)/income from associates and other, net	10	**(65,714)**	392,062
Income from and gain on investments	23(a)	**684,192**	396,480
Others	23(b)	**132,477**	172,910
Total revenues		**3,202,280**	3,743,031
Costs and expenses			
Hotels and other operating costs		**(1,480,957)**	(1,913,202)
Cost of real estate	11	**(160,483)**	-
General and administrative expenses	24	**(414,349)**	(454,321)
Total costs and expenses		**(2,055,789)**	(2,367,523)
Gross profit		**1,146,491**	1,375,508
Depreciation and amortization	12,13	**(235,241)**	(273,866)
Reversal of impairment loss	25	**189,300**	-
Income from operations		**1,100,550**	1,101,642
Finance charges, net	15	**(433,973)**	(409,692)
Income before minority interests, zakat and tax		**666,577**	691,950
Minority interests	21	**14,798**	(12,380)
Income before zakat and tax		**681,375**	679,570
Zakat and tax	18	**(41,760)**	(74,324)
Net income for the year		**639,615**	605,246
Earnings per share (Saudi Riyals):	31		
• Income from operations		**0.30**	0.30
• Net income for the year		**0.17**	0.15

The notes on pages 7 to 32 form an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	Year ended December 31, 2011	2010
Cash flow from operating activities			
Income before zakat and tax		**681,375**	679,570
Adjustments for non-cash items			
Depreciation and amortization		**235,241**	273,866
Loss/(income) from associates and other, net	10	**65,714**	(392,062)
Income from and gain on investments	23	**(684,192)**	(396,480)
Reversal of impairment loss	25	**(189,300)**	-
(Loss)/ income applicable to minority interests		**(14,798)**	12,380
Allowance for doubtful debts	5	**6,449**	8,924
Changes in working capital			
Accounts receivable and other assets		**36,831**	(314,946)
Other long term assets		**77,514**	66,422
Accounts payable and other liabilities		**75,560**	(34,890)
Other long term liabilities		**(184,604)**	(64,578)
Zakat and tax paid		**(94,619)**	(63,824)
Net cash generated from/(utilized in) operating activities		**11,171**	(225,618)
Cash flow from investing activities			
Net assets held for sale		**-**	167,250
Movement in held for trading investments	4	**(151,769)**	-
Acquisition of available for sale investments	9	**(190,103)**	-
Proceeds from sale of available for sale investments		**6,524**	57,053
Acquisition of additional ownership in a subsidiary	1	**-**	(1,387,508)
Reclassification of subsidiaries, net of cash		**(384,859)**	(293,340)
Additions to associates	10	**(32,927)**	(234,417)
Dividends from associates	10	**88,038**	101,029
Proceeds from sale of investments in associates		**-**	452,916
Additions to investments in real estate		**(92,179)**	(321,955)
Property and equipment, net	12	**(420,525)**	(712,715)
Proceeds from disposal of property and equipment		**596,692**	55,897
Intangible assets		**188,721**	59,432
Net cash utilized in investing activities		**(392,387)**	(2,056,358)
Cash flows from financing activities			
Loans and borrowings, net		**912,819**	1,354,029
Dividends paid	32	**(550,324)**	-
Changes in minority interests		**(12,512)**	(6,850)
Net cash generated from financing activities		**349,983**	1,347,179
Net change in cash and cash equivalents		**(31,233)**	(934,797)
Cash and cash equivalents at beginning of year		**1,298,605**	2,233,402
Cash and cash equivalents at end of year	3	**1,267,372**	1,298,605
Supplemental schedule of non cash information			
Net assets related to subsidiaries classified as associates	10	**1,240,775**	5,609,550
(Increase)/decrease in unrealized loss from available for sale investments	9	**(1,796,692)**	1,973,815
Transfer of available for sale investments to held for trading investments	4,9	**77,676**	-
Reduction in capital to absorb losses	20	**-**	25,941,177
Transfer of general reserve to absorb losses	20	**-**	3,131,106

The notes on pages 7 to 32 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in Saudi Riyals thousands unless otherwise stated)

		Shareholders' equity							Minority interests	Total equity
	Note	Share Capital	Statutory reserve	General reserve	Retained earnings	Unrealized loss from available for sale investments	Foreign currency translation adjustments and other	Total		
January 1, 2011		37,058,823	181,545	-	1,197,599	(11,269,920)	(86,636)	**27,081,411**	1,315,287	**28,396,698**
Net income for the year		-	-	-	639,615	-	-	**639,615**	(14,798)	**624,817**
Transfer to statutory reserve		-	63,961	-	(63,961)	-	-	-	-	**-**
Dividends	32	-	-	-	(550,324)	-	-	**(550,324)**	-	**(550,324)**
Net movement during the year		-	-	-	-	(1,796,692)	72,287	(1,724,405)	(806,608)	(2,531,013)
December 31, 2011		**37,058,823**	**245,506**	**-**	**1,222,929**	**(13,066,612)**	**(14,349)**	**25,446,297**	**493,881**	**25,940,178**
January 1, 2010		63,000,000	121,020	3,131,106	(28,419,405)	(13,243,735)	(9,691)	24,579,295	7,446,949	32,026,244
Reduction in capital to absorb losses	20	(25,941,177)	-	-	25,941,177	-	-	-	-	-
Transfer of general reserve to absorb losses	20	-	-	(3,131,106)	3,131,106	-	-	-	-	-
Net income for the year		-	-	-	605,246	-	-	605,246	12,380	617,626
Transfer to statutory reserve		-	60,525	-	(60,525)	-	-	-	-	-
Net movement during the year		-	-	-	-	1,973,815	(76,945)	1,896,870	(6,144,042)	(4,247,172)
December 31, 2010		37,058,823	181,545	-	1,197,599	(11,269,920)	(86,636)	27,081,411	1,315,287	28,396,698

The notes on pages 7 to 32 form an integral part of these consolidated financial statements.

(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 Jumada 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 shares of the Company commenced trading on the Saudi Stock Exchange on July 28, 2007 after approval by the Capital Market Authority.

The Company and its subsidiaries (the "Group") carry out its activities through the following entities:

a) **Kingdom 5-KR-11 Limited (KR-11)**

KR-11 is a limited liability company incorporated in the Cayman Islands. The company's principal activity represents investments in international quoted securities, through its wholly owned subsidiaries.

b) **Kingdom 5-KR-100 Limited (KR-100)**

KR-100 is a limited liability company incorporated in the Cayman Islands. The company's principal activity represents ownership and management of funds, through its associates.

c) **Kingdom 5-KR-132 Limited (KR-132)**

KR-132 is a limited liability company incorporated in the Cayman Islands. The company's principal activity includes holding investments in the following subsidiaries and associates that own and manage properties and hotels:

Subsidiaries	Ownership Percentage	
	2011	2010
Kingdom Hotel Investments (KHI) - Cayman Islands	**100**	100
Kingdom 5 KR 35 Group (George V) - France *(Direct and indirect ownership through KHI)*	**100**	100

Associates	Ownership Percentage	
	2011	2010
Fairmont Raffles Holdings International (FRHI) - Canada	**35.0**	35.0
Four Seasons Holding Inc. (FSH Inc.) – Canada	**47.5**	47.5
Mövenpick Hotels and Resorts AG (Mövenpick) - Switzerland *(Direct and indirect ownership through KHI)*	**33.3**	33.3
Breezeroad Limited (Savoy) - United Kingdom	**50.0**	50.0
Kingdom XXII (USA) Limited (Plaza) - United States of America		
• Hotel	**50.0**	50.0
• Condominium	**25.0**	25.0

During the year ended December 31, 2010, the Group made an offer to buy the publicly listed shares of the minority shareholders of Kingdom Hotel Investments (KHI), a subsidiary, representing 44% of the total issued share capital of KHI. The offer price was Saudi Riyals 18.75 (US$ 5) per share and the overall consideration was Saudi Riyals 1,388 million. This offer was approved by the board of directors of KHI and an independent committee of the Board, and was later approved by KHI's shareholders. As a result, the Group owns 100% of the issued capital of KHI as of December 31, 2011 and 2010.

During the year ended December 31, 2010, the shareholders of Fairmont Raffles Holding International (FRHI), a former 58% owned subsidiary, signed an agreement with Voyager Partners Limited and Qatari Diar Hotel and Property Investment Limited for the sale of 40% of FRHI's capital through the issuance of additional shares. As a result, the Group's ownership interest was reduced from 58% to 35%. Accordingly, this investment was reclassified during 2010 to investments in associates (Note 10).

d) Local and regional subsidiaries

The Company has also ownership in the following local and regional subsidiaries and associates:

Subsidiaries	Ownership Percentage	
	2011	2010
Kingdom Schools Company Limited (The School) - Saudi Arabia	**47.0**	47.0
Fashion Village Trading Company Limited (SAKS) - Saudi Arabia	**71.8**	71.8
Medical Services Projects Company Limited (MSPC) - Saudi Arabia	**74.0**	74.0
Trade Centre Company Limited (TCCL) - Saudi Arabia	**-**	36.0
Consulting Clinic SAL (Clinic) - Lebanon	**50.4**	50.4
Kingdom Agriculture Development Company (KADCO) - Egypt	**100.0**	100.0

Associates	Ownership Percentage	
	2011	2010
National Air Services - Saudi Arabia	**35.8**	35.8
Jeddah Economic Company (JEC) - Saudi Arabia	**33.35**	40.0
Real Estate Investment Company (REIC) - Saudi Arabia	**38.9**	38.9
Saudi Research and Marketing Group - Saudi Arabia	**29.9**	29.9
Trade Centre Company Limited (TCCL) - Saudi Arabia	**36.0**	-

During the year ended December 31, 2011, the shareholders of Jeddah Economic Company ("JEC") restructured the ownership of JEC and a new shareholder contributed cash for a 16.63% equity interest in JEC. As a result, the Company's ownership interest was reduced during the current year from 40% to 33.35% (Note 10).

During the year ended December 31, 2011, due to certain changes in the management and operating control structure of Trade Centre Company Limited ("TCCL") (a former 36% owned subsidiary), KHC no longer exercises control over TCCL. Accordingly, this investment has been reclassified during the current year to investments in associates (Note 10).

During the year ended December 31, 2010, due to certain changes in the management and operating control structure of Real Estate Investment Company ("REIC") (a former 39% owned subsidiary), KHC no longer exercise control over REIC. Accordingly, this investment was reclassified during 2010 to investments in associates (Note 10).

The principal activities and the various segments of the Group are described in Note 30.

These financial statements were authorized for issue by the Company's Board of Directors on February 22, 2012.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

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

The accompanying consolidated financial statements comprise the financial statements of the Company and its subsidiaries. All intra-group balances, transactions, income and expenses are eliminated in full. A subsidiary is a company in which the Company 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.

Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated income statement, consolidated balance sheet and within consolidated statement of changes in equity separately from shareholders' equity.

2.2 Critical accounting estimates and judgments

The preparation of 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. 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 year are discussed below.

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.11 (a). The recoverable amounts of cash-generating units have been determined based on appropriate valuation techniques. These calculations require the use of estimates.

(b) Estimated impairment of available for sale investments

The Group determines that available for sale equity financial assets are impaired when there has been a significant and prolonged decline in the fair value below its cost. This determination of what is significant and prolonged requires significant judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry sector performance, changes in technology, and operational and financing cash flows. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and financing and operational cash flows.

(c) Estimated useful life of property and equipment

Management assesses useful lives and residual value of property and equipment on intended use of assets and the economic lives of the assets. Subsequent changes in circumstances such as technological advances could result in the actual useful lives or residual values differing from the initial estimates. Management has reviewed the residual value and useful lives of major property and equipment and determined that no adjustment is necessary.

2.3 Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents consist of bank balances, cash on hand, and short-term deposits with an original maturity of three months or less.

2.4 Accounts receivable

Accounts receivable are stated at original invoice amount less provision for any uncollectible amounts. An allowance for doubtful debts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Such allowances are charged to the consolidated income statement and reported under “General and administrative expenses”. When account receivable is uncollectible, it is written-off against the allowance for doubtful debts. Any subsequent recoveries of amounts previously written-off are credited against “General and administrative expenses” in the consolidated income statement.

2.5 Inventories

Inventories are carried at the lower of cost and market value. Cost is determined using weighted average method. The cost of finished products include the cost of raw materials, labor and production overheads. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. Appropriate provision is made for obsolete and redundant inventory.

2.6 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 close 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.

2.7 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 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.

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.

(c) Associates

Associates 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 are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated amortization and impairment losses, if any. Under the equity method, investments in associate are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates. The consolidated income statement reflects the Group's share in the results of associates 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 equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. 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 are recognized in the 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 consolidated income statement in the period of the retirement or disposal.

(e) Interest in a joint venture

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's consolidated financial statements.

2.8 Business combination and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or group of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative transaction difference and goodwill is recognized in the consolidated income statement.

2.9 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.

2.10 Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any impairment in value. Depreciation is charged to the consolidated income statement. Land and construction work in progress are not depreciated. The cost less estimated residual value of other property and equipment is depreciated on a straight line basis over the following estimated useful lives of the assets:

	Number of years
Buildings	20 to 50 years
Equipment	2 to 20 years
Furniture and fixtures	2 to 20 years
Others	4 to 10 years

Leasehold improvements are amortized on a straight-line basis over the shorter of the useful life of the improvement or the term of the lease.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the consolidated income statement.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the consolidated income statement as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

2.11 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 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 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 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 consolidated income statement.

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 consolidated income statement. Impairment losses recognized on equity investments classified as available for sale and goodwill are not reversible.

2.12 Loans and bank borrowings

Bank borrowings and term loans are recognized initially at fair value, net of transaction costs incurred; and any differences between the proceeds (net of transaction costs) and the redemption value are recognized in the consolidated income statement over the period of the loan using the effective interest method. Loans are classified as current liabilities unless the Group has an unconditional right and intention to defer settlement of the liability for at least twelve months after the balance sheet date.

Borrowing costs directly attributable to the construction of qualifying assets, which are assets that necessarily take a substantial period of time to prepare for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as an expense in the consolidated income statement when incurred.

2.13 Accounts payable and accruals

Liabilities are recognized for amounts to be paid in the future for goods or services received, irrespective of date of billing.

2.14 Provisions

Provisions are recognized when; the Group has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

2.15 Pension and other post employment benefits

Certain companies within the Group operate defined benefit pension plans and other post retirement plans, primarily life insurance and health care coverage, for certain grades of employees. Pension benefits are based principally on years of service and compensation rates near retirement. The cost of these benefit plans is determined by an actuary using the projected benefit method pro-rated based on the employees' terms of service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.

In certain jurisdictions, the Group participates in various defined contribution pension schemes in accordance with the local conditions and practices in the countries in which the subsidiaries operate. The amount charged to the consolidated income statement in respect of pension costs is the contributions payable in the year. Differences between contributions payable during the year and contributions actually paid are shown as either accrued liabilities or prepaid assets in the consolidated balance sheet.

2.16 Employees' termination benefits

Employee termination benefits required by Saudi Labor and Workman Law are accrued by the Company and its Saudi Arabian subsidiaries and charged to the consolidated income statement. The liability is calculated; at the current value of the vested benefits to which the employee is entitled, should the employee leave at the balance sheet date. Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of Saudi Arabia.

The foreign subsidiaries provide currently for employee termination and other benefits as required under the laws of their respective countries of domicile.

2.17 Statutory reserve

In accordance with the Saudi Arabian Regulations for Companies, the Company sets aside 10% of its net income (after deducting losses brought forward) in each year to a statutory reserve until such reserve equals to one half of the share capital. This reserve is not available for distribution to the shareholders of the Company.

2.18 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 upon the execution of sale contract and the delivery of the real estate, whichever comes last.

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

2.19 Expenses

Operating costs of the Group are reported as hotels and other operating costs. Other expenses, including selling and marketing expenses which are not material, are classified as general and administration expenses. Development costs are capitalized only when economic feasibility of the project has been demonstrated. In the absence of economic feasibility, such cost is expensed when incurred.

2.20 Zakat and taxes

(a) Zakat and income taxes

The Company is subject to zakat in accordance with the regulations of the Department of Zakat and Income Tax (the "DZIT"). Foreign shareholders in the consolidated Saudi Arabian subsidiaries are subject to income taxes. Income tax provisions related to the foreign shareholders in such subsidiaries are charged to the minority interest. Provision for zakat for the Company and zakat related to the Company's ownership in the Saudi Arabian subsidiaries is charged to the consolidated income statement. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

Foreign subsidiaries are subject to income taxes in their respective countries of domicile. Such income taxes are charged to the consolidated income statement.

(b) Deferred tax assets and liabilities

Deferred tax assets and liabilities are recognized for all temporary differences at the current rates of taxation applicable in the relevant jurisdiction. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available in the near future to allow all or part of the deferred tax asset to be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(c) Other

The Company and its Saudi Arabian subsidiaries withhold taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

2.21 Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated income statement on a straight-line basis over the lease term.

2.22 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.

2.23 Foreign currency translations

The 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 consolidated income statement.

(All amounts in Saudi Riyals thousands unless otherwise stated)

At the consolidation level, financial statements of foreign subsidiaries 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.

2.24 Dividends

Dividends are recorded in the consolidated financial statements in the period in which they are approved by shareholders of the Company.

2.25 Derivative financial instruments

Derivatives financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Hedges used by the Group are cash flow hedges. Fair values are obtained from quoted market prices. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in consolidated statement of changes in equity. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement.

3 Cash and cash equivalents

	2011	2010
Bank balances and cash	**924,960**	1,037,822
Short term deposits	**342,412**	260,783
	1,267,372	1,298,605

Short term deposits are made for different periods (between one day and three months), depending on the cash requirements of the Company and its subsidiaries, and earn interest at floating rates.

4 Held for trading investments

(a) Held for trading investments consist of the following quoted securities:

	2011	2010
Local	**128,496**	-
International	**110,401**	-
	238,897	-

(b) The movement in held for trading investments is set out below:

	2011	2010
At the beginning of the year	-	-
Additions	**151,769**	-
Transfer from available for sale investments	**77,676**	-
Changes in fair value, net (Note 23)	**9,452**	-
At the end of the year	**238,897**	-

5 Accounts receivable

	2011	2010
Trade receivables	**243,604**	333,437
Less: allowance for doubtful debts	**(21,732)**	(30,499)
	221,872	302,938

Movements in the allowance for doubtful debts are as follows:

	2011	2010
At the beginning of the year	**30,499**	62,153
Charge for the year	**6,449**	8,924
Reclassification to associates (Note 1)	**(5,576)**	(34,394)
Amounts written off	**(9,640)**	(6,184)
At the end of the year	**21,732**	30,499

Trade receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Group to obtain collateral over trade receivables and the vast majority is, therefore, unsecured.

6 Other assets

	2011	2010
Due from affiliates (Note 7)	**271,018**	172,419
Inventories	**120,729**	114,500
Investments in real estate (Note 11)	**116,541**	54,983
Prepaid loan fee	**90,799**	49,321
Value Added Tax claims receivable	**112,718**	86,000
Advances to suppliers	**45,502**	189,029
Prepaid expenses	**30,644**	70,287
Other	**209,256**	131,324
	997,207	867,863

7 Related party matters

The following are the details of major related party transactions during the year:

Related party	*Nature of transaction*	*Amounts of transactions*	
		2011	2010
Affiliates	Revenues	**13,574**	51,399
	Costs and expenses	**67,333**	105,100
Principal shareholder	Land development costs	**-**	250,000

In 2010, land development costs amount represents payments made by the Company to the principal shareholder as a reimbursement against infrastructure and development costs incurred on behalf of the Company. This transaction was reviewed and approved by the Company's Board of Directors.

Amounts due from / to affiliates are shown in Notes 6 and 17, respectively.

(All amounts in Saudi Riyals thousands unless otherwise stated)

8 Net assets held for sale

The Group has approved and committed to a formal plan to actively market certain identified assets and hotel properties for sale. Accordingly, the Group has classified the following assets and related liabilities as held for sale:

	2011	2010
Current assets	**24,122**	24,122
Property and equipment	**7,935**	7,935
Other assets	**175,083**	175,083
	207,140	207,140
Current and other liabilities	**(66,955)**	(113,290)
Net balance	**140,185**	93,850

9 Available for sale investments

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

	2011	2010
International	**7,126,899**	8,943,632
Local and regional	**1,355,192**	1,229,248
	8,482,091	10,172,880

(b) The movement in AFS investments is set out below:

	2011	2010
Cost:		
At the beginning of the year net of impairment charge	**21,442,800**	21,499,295
Transfer to held for trading investments	**(77,676)**	-
Additions during the year	**190,103**	-
Disposal	**(6,524)**	(56,495)
At the end of the year	**21,548,703**	21,442,800
Unrealized loss:		
At the beginning of the year	**(11,269,920)**	(13,243,735)
(Increase)/decrease in unrealized loss during the year, net	**(1,798,113)**	1,973,815
Unrealized loss related to investment disposed off	**1,421**	-
At the end of the year	**(13,066,612)**	(11,269,920)
Net carrying amount	**8,482,091**	10,172,880

No gain or loss was made on disposal of AFS investments during the year (2010: Saudi Riyals 558 thousand) (Note 23).

Certain available for sale investments are used as collateral against bank borrowings and term loans of the Company and its subsidiaries (Note 15).

As of December 31, 2011, the Company has performed 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, information from financial analysts about the forecasted market price, the Company's intent and ability to hold these investments until the market price recovers and its intent and ability to mitigate any potential impairment that could be incurred on such investments.

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.

10 Investments in associates

(a) Following is the movement of investments in associates during the year ended December 31:

	2011	2010
At the beginning of the year	**16,690,681**	11,758,635
Additions during the year	**32,927**	234,417
Share in (loss)/income and other, net	**(65,714)**	392,062
Transfer from subsidiaries and others	**634,056**	5,609,550
Disposals and others	**-**	(1,202,954)
Dividends received	**(88,038)**	(101,029)
At the end of the year	**17,203,912**	16,690,681

During the year ended December 31, 2011, due to certain changes in the management and operating control structure of Trade Centre Company Limited (TCCL) (a former 36% owned subsidiary), KHC no longer exercises control over TCCL. Accordingly, this investment was reclassified to investments in associates at its fair value resulting in a gain of Saudi Riyals 171.1 million (Note 23).

During 2010, the Company completed an exchange transaction with a newly established company, Jeddah Economic Company (JEC), an associate, through contribution of certain land of Saudi Riyals 1,832 million. The Company has an ownership of 40% in JEC, which will be engaged in the development of large real estate projects in Jeddah, Kingdom of Saudi Arabia. As a result of completing certain defined milestones pertaining to this investment, the Company recognized a gain of Saudi Riyals 662 million during 2010, which represents a portion of the income that is attributable to the equity of the other partners in JEC. During the year ended December 31, 2011, the shareholders restructured the ownership of JEC and a new shareholder contributed Saudi Riyals 1,460 million cash for a 16.63% equity interest in JEC. This was based on a valuation of all contributions provided by the existing shareholders. As a result, the Company's share was diluted to 33.35% resulting in a gain of Saudi Riyals 363.5 million which was recognized during 2011 (Note 23).

During the year ended December 31, 2010, the shareholders of Fairmont Raffles Holding International (FRHI), a former 58% owned subsidiary, signed an agreement with Voyager Partners Limited and Qatari Diar Hotel and Property Investment Limited for the sale of 40% of FRHI's capital through the issuance of additional shares. As a result, the Group's ownership interest was reduced from 58% to 35%. Also, during the same year and due to certain changes in the management and operating control structure of Real Estate Investment Company (REIC) (a former 39% owned subsidiary), KHC no longer exercise control over REIC. Accordingly, both investments (including their related goodwill - Note 12) were reclassified to investments in associates at their fair values resulting in a gain of Saudi Riyals 371 million (Note 23).

During the year ended December 31, 2010, the Group disposed of certain investments in associates resulting in a gain of Saudi Riyals 54 million (Note 23).

(All amounts in Saudi Riyals thousands unless otherwise stated)

(b) Details of investments in associates at December 31 are summarized as follows:

	2011		2010	
	Percentage Ownership	Amount	Percentage Ownership	Amount
Associates of the Company:				
Trade Centre Company Limited (TCCL) - Saudi Arabia (Note 1)	**36.0**	**333,575**	-	-
Fairmont Raffles Holdings International (FRHI) - Canada (Note1)	**35.0**	**5,315,716**	35.0	4,923,810
Four Seasons Holding Inc. - Canada	**47.5**	**4,247,707**	47.5	4,272,064
Jeddah Economic Company - Saudi Arabia (Note1)	**33.35**	**2,858,755**	40.0	2,495,100
National Air Services - Saudi Arabia	**35.8**	**1,942,266**	35.8	1,829,118
Saudi Research and Marketing Group - Saudi Arabia	**29.9**	**918,736**	29.9	1,594,316
Breezeroad Limited (Savoy) - United Kingdom	**50.0**	**443,992**	50.0	513,105
Mövenpick Hotels and Resorts AG - Switzerland	**33.3**	**447,839**	33.3	438,083
Real Estate Investment Company (REIC) - Saudi Arabia (Note1)	**38.9**	**258,372**	38.9	302,965
Kingdom XXII (USA) Limited (Plaza) - United States of America	**25.0-50.0**	**165,556**	25.0-50.0	172,054
Others	**30.0-35.0**	**189,728**	30.0-35.0	87,175
Associates of Subsidiaries				
Mövenpick El - Gouna - Egypt	**29%**	**72,999**	29%	54,305
Four Seasons - Mauritius Golf Club	**39%**	**8,671**	39%	8,556
		17,203,912		16,690,681

11 Investments in real estate

	2011	2010
Investments in land and related infrastructure costs - Saudi Arabia (Note 7)	**1,504,576**	1,595,376
Properties under construction	**249,308**	82,599
Others	**111,185**	44,950
	1,865,069	1,722,925
Less: current portion (Note 6)	**(116,541)**	(54,983)
	1,748,528	1,667,942

During 2011, the Company completed the sale of certain parcels of land in the Kingdom of Saudi Arabia and realized a gain of Saudi Riyals 89 million (2010: Saudi Riyals 37 million).

During 2010, the Group capitalized borrowing costs of Saudi Riyals 33 million that were incurred in connection to the development of its real estate projects. No such costs were incurred during 2011.

12 Property and equipment, net

	Land	Buildings and leasehold improvements	Equipment	Furniture and fixtures	Construction work in progress and others	Total 2011
Cost						
At the beginning of the year	2,539,182	5,878,797	396,787	1,010,836	928,267	**10,753,869**
Additions	4,715	91,391	37,185	44,672	445,525	**623,488**
Disposals	-	(530,414)	(69,947)	(58,044)	(42,954)	**(701,359)**
Reclassification and transfers (Note 1)	(376,288)	(399,571)	31,391	(88,558)	(868,016)	**(1,701,042)**
At the end of the year	2,167,609	5,040,203	395,416	908,906	462,822	**8,974,956**
Accumulated depreciation						
At the beginning of the year	-	1,006,012	162,187	381,783	49,467	**1,599,449**
Charge for the year	-	104,479	43,910	56,842	14,276	**219,507**
Disposals	-	(148,118)	(49,736)	(40,115)	(6,838)	**(244,807)**
Reclassification and transfers (Note 1)	-	(254,744)	725	(77,878)	-	**(331,897)**
At the end of the year	-	707,629	157,086	320,632	56,905	**1,242,252**
Net book value at December 31, 2011	2,167,609	4,332,574	238,330	588,274	405,917	**7,732,704**

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Land	Buildings and leasehold improvements	Equipment	Furniture and fixtures	Construction work in progress and others	Total 2010
Cost						
At the beginning of the year	3,330,100	7,561,283	616,509	1,733,538	925,203	14,166,633
Additions	456	107,996	16,901	75,257	770,101	970,711
Disposals	-	(2,958)	(5,429)	(35,051)	(1,081)	(44,519)
Reclassification and transfers (Note 1)	(791,374)	(1,787,524)	(231,194)	(762,908)	(765,956)	(4,338,956)
At the end of the year	2,539,182	5,878,797	396,787	1,010,836	928,267	10,753,869
Accumulated depreciation						
At the beginning of the year	-	1,138,501	346,217	856,019	37,370	2,378,107
Charge for the year	-	119,871	27,239	76,740	26,580	250,430
Disposals	-	(3,323)	(4,934)	(33,415)	(950)	(42,622)
Reclassification and transfers (Note 1)	-	(249,037)	(206,335)	(517,561)	(13,533)	(986,466)
At the end of the year	-	1,006,012	162,187	381,783	49,467	1,599,449
Net book value at December 31, 2010	2,539,182	4,872,785	234,600	629,053	878,800	9,154,420

Certain land and buildings are pledged as collateral against term loans as explained in Note 15.

13 Intangible assets

Intangible assets comprise the following:

	2011	2010
Goodwill	**1,538,699**	1,685,881
Management contracts	**-**	5,494
Brand names and others	**67,667**	119,446
	1,606,366	1,810,821

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.

Goodwill includes the portion relating to the goodwill of minority interest of subsidiaries, aggregating to Saudi Riyals 112 million (2010: Saudi Riyals 112 million).

Movement in goodwill during the year is set out below:

	2011	2010
At the beginning of the year	**1,685,881**	7,904,877
Reclassification to associates (Notes 1)	**-**	(4,931,271)
Adjustment and acquisition of additional shares in KHI (Note 1)	**(147,182)**	(1,252,851)
Others	**-**	(34,874)
	1,538,699	1,685,881

Management contracts and brand names relate to subsidiaries that operate hotel properties. Such intangibles have definite lives and are amortized over their useful economic lives. Amortization of intangible assets for the year ended December 31, 2011 amounted to Saudi Riyals 15.7 million (2010: Saudi Riyals 23.5 million).

Impairment:

i. Impairment test

Goodwill is allocated to the Group's cash-generating units identified which is based on the business segments. The Group has tested separately recognised goodwill for impairment. As a result, management considers no impairment is required at the year end.

ii. Basis of determining recoverable amounts

The recoverable amounts for the hotels cash-generating units and retail cash-generating unit have been determined using EBITDA multiples and value-in-use respectively.

Hotels

An independent valuation of the Group's hotel properties was performed by valuers to determine the recoverable amount. The valuations are based on EBITDA multiples and comparing with available market data for similar hotel properties.

(All amounts in Saudi Riyals thousands unless otherwise stated)

Retail

The key assumptions used in value-in-use calculations include a risk adjusted discount rate, growth rates based on management's expectation for market development and historical earnings. Cash flow projections are based on forecasts approved by management covering a three year period using discount rates between 8% and 10%. Cash flows beyond the estimation period have been extrapolated using growth rates of 3%. This growth rate does not exceed the long term growth rate for the markets in which cash-generating unit operates.

Others

Goodwill allocated to the schools cash-generating unit amounts to Saudi Riyals 8.9 million (2010: Saudi Riyals 8.9 million) and management is of the opinion that this goodwill is not impaired.

14 Other long term assets

	2011	2010
Long term advances	**25,000**	38,000
Refundable deposits	**3,783**	8,635
Advances to contractors	**536**	5,343
Others	**21,437**	76,292
	50,756	128,270

15 Bank borrowings and term loans

The following is a summary of bank borrowings and term loans at December 31:

	2011	2010
Current		
Short-term loans	**73,938**	115,542
Revolving credit facilities	**652,571**	69,744
	726,509	185,286
Current portion of term loans	**732,001**	1,045,366
	1,458,510	1,230,652
Non-current		
Term loans	**10,864,463**	10,829,502
	12,322,973	12,060,154

Details of bank borrowings and term loans by entity are as follows:

	2011	2010
Kingdom Holding Company (KHC)	**5,356,606**	5,243,308
Kingdom Hotel Investments (KHI)	**2,130,098**	2,199,021
Kingdom 5-KR-11 Ltd.	**2,993,888**	1,978,960
Kingdom 5-KR-35 Group (George V)	**1,739,251**	1,803,030
Others	**103,130**	835,835
	12,322,973	12,060,154

Following is a brief summary of the Group's main loans:

Kingdom Holding Company (KHC)
KHC loans of Saudi Riyals 5,357 million as of December 31, 2011 (2010: Saudi Riyals 5,243 million) were obtained from commercial banks and consist of several facilities including syndicated loans and revolving credit facilities. During the current year, KHC obtained new loans of Saudi Riyals 3,827 million (2010: Saudi Riyals 817 million) and settled loans of Saudi Riyals 3,713 million (2010: Saudi Riyals 263 million). KHC loans carry borrowing costs based on Saudi Inter Bank Offered Rate ("SIBOR") and London Inter Bank Offered Rate ("LIBOR") plus a spread and are secured against certain investments by the Company. As at December 31, 2011, loans amounting to Saudi Riyals 1,464 million were denominated in US dollars and the remaining balance is denominated in Saudi Riyals. The aggregate maturities of these loans, based on their respective repayment schedules, are spread over a period up to 5 years.

The loan agreements contain covenants which, among other things, require that certain financial ratios and equity balance be maintained.

Kingdom Hotel Investments (KHI)
KHI loans of Saudi Riyals 2,130 million as of December 31, 2011 (2010: Saudi Riyals 2,199 million) have different maturities within the next nine years period and carry floating interest rates. These rates are calculated on base rate plus a spread for the currency of the loans. The facilities are secured through registered mortgage and lien over several properties, deed of support and order notes. Loan agreements include certain financial covenants with respect to debt service ratio and interest coverage ratio.

The carrying values of the borrowings are denominated in following currencies:

	2011	2010
	In millions	In millions
US dollars	**1,304**	1,167
UAE Dirham	**306**	375
Morocco Dirham	**275**	270
Euro	**60**	65
Other	**185**	322
	2,130	2,199

Kingdom 5-KR-11 Ltd. (KR 11)
KR 11 loans carry floating interest rates, which are calculated on a base rate, plus a spread based on the currency of the loan. The facilities are secured by certain available for sale investments and other investments. The aggregate maturities of these loans, based on their respective repayment schedules, are spread over a period of 3 years. These loans are denominated in US dollars.

Kingdom 5-KR-35 Group (George V)
The loans of Saudi Riyals 1,739 million as of December 31, 2011 (2010: Saudi Riyals 1,803 million) are secured by a pledge over George V hotel property. The loan agreements include certain financial covenants, such as debt service coverage ratio, assets value coverage ratio and maintenance of security deposit. The loans carry floating interest rates (based mainly on LIBOR three month rate) and aggregate maturity period is over 5 years. These loans are primarily denominated in Euro.

Other loans
Other loans represent various loan facilities obtained by certain other subsidiaries of the Group. These facilities carry interest calculated on floating base rate plus a spread based on the currency of the loan. The facilities are secured against mortgage of properties and other assets. The aggregate maturities of these loans, based on their respective repayment schedules, are spread over a period of 9 years. These loans are primarily denominated in Saudi Riyals.

(All amounts in Saudi Riyals thousands unless otherwise stated)

16 Accounts payable

	2011	2010
Trade payables	**240,242**	219,563
Other payables	**23,207**	21,088
	263,449	240,651

17 Accrued expenses and other liabilities

	2011	2010
Employees related accruals	**109,188**	191,449
Deposits from customers	**209,141**	129,815
Financial charges	**46,604**	108,694
Income taxes (Note 18 (b))	**66,654**	86,595
Unearned revenue	**33,089**	66,326
Zakat (Note 18 (a))	**16,955**	56,409
Due to affiliates (Note 7)	**107,545**	35,920
Other	**113,609**	121,264
	702,785	796,472

18 Zakat and tax

Zakat and tax expense reported in the consolidated income statement consists of the following:

	2011	2010
Zakat provision, net	**(11,599)**	10,723
Income tax provision	**49,360**	55,474
Withholding tax on foreign dividends	**3,999**	8,127
	41,760	74,324

(a) Zakat

The Zakat obligations for the year represent the Zakat due on the Company and its local subsidiaries. The movement in Zakat provision for the year ended December 31 is as follows:

	2011	2010
At the beginning of the year	**56,409**	50,151
Zakat provision, net	**(11,599)**	10,723
Reclassification during the year	**(6,536)**	-
Paid during the year	**(21,319)**	(4,465)
At the end of the year (Note 17)	**16,955**	56,409

During 2011, the Company reversed excess zakat provision related to prior years since it is no longer required. Such excess provision of Saudi Riyals 28 million was netted off against current year zakat charge of Saudi Riyals 16.4 million.
The significant components of zakat base under zakat and income tax regulations are principally comprised of equity, provisions at the beginning of year, long-term borrowings and adjusted net income, less deductions for the net book value of long-term assets and certain other items. The differences between the financial and

adjusted net income are mainly due to provisions and other items which are not allowed in the calculation of adjusted net income subject to zakat.

Zakat assessments in respect of the Company's position have been agreed with the Department of Zakat and Income Tax ("DZIT") up to 2002. The returns for the years 2003 through 2010 have been submitted by the Company but not yet finalized by the DZIT.

b) Income tax

The Group's subsidiaries which are incorporated outside the Kingdom of Saudi Arabia are subject to tax laws of the country of incorporation. The income tax payable was approximately Saudi Riyals 67 million and Saudi Riyals 87 million as at December 31, 2011 and 2010, respectively (Note 17).

c) Deferred tax

Deferred tax liabilities and assets at December 31, relate to the following:

	2011	2010
Deferred tax liabilities		
Property, equipment and intangible assets	**297,756**	334,260
Others	**90,548**	106,095
Gross deferred tax liabilities	**388,304**	440,355
Deferred tax assets		
Provisions	**(31,028)**	(1,386)
Others	**(60,681)**	(12,367)
Gross deferred tax assets	**(91,709)**	(13,753)
Net deferred tax liability (Note 19)	**296,595**	426,602

19 Other long term liabilities

	2011	2010
Deferred taxes (Note 18 (c))	**296,595**	426,602
Advances against sale of real estate	**-**	126,770
Post employment benefits	**70,544**	73,022
Retention payable	**75,292**	40,265
Other	**18,074**	27,636
	460,505	694,295

20 Share capital

In its Extraordinary General Meeting on Safar 26, 1431H (February 10, 2010), the General Assembly resolved to reduce the Company's capital by Saudi Riyals 25,941 million, in order to use this amount and the general reserve balance of Saudi Riyals 3,131 million to absorb accumulated losses of Saudi Riyals 29,072 million. As a result, the Company's capital was reduced from Saudi Riyals 63,000 million to Saudi Riyals 37,059 million.

The share capital at December 31, 2011 and 2010 consists of 37,059 million shares of Saudi Riyals 10 each.

(All amounts in Saudi Riyals thousands unless otherwise stated)

21 Minority interests

This balance represents the share of the minority shareholders / partners in the following consolidated companies:

Name of the entity	2011		2010	
	Total minority interests	Share in net income (loss)	Total minority interests	Share in net income (loss)
Fairmont Raffles Holdings Int'l (Note 1)	**-**	**-**	-	(54,365)
Kingdom Hotel Investments (Note 1)	**435,639**	**(30,547)**	356,196	28,102
Real Estate Investment Company (Note 1)	**-**	**-**	-	4,194
Trade Centre Company Limited (Note1)	**-**	**14,554**	794,096	45,243
Others	**58,242**	**1,195**	164,995	(10,794)
	493,881	**(14,798)**	1,315,287	12,380

Total minority interests include goodwill of Saudi Riyals 112 million relating to minority interests (2010: Saudi Riyals 112 million).

22 Dividends income

	2011	2010
International	**40,034**	33,739
Local and regional	**31,573**	21,527
	71,607	55,266

23 Income from and gain on investments and others

23(a) Income from and gain on investments

	2011	2010
Change in market value of held for trading investments	**9,452**	-
Gain on disposal of available for sale investments	**-**	558
Gain on investments in associates	**534,600**	424,942
Others, net	**140,140**	(29,020)
	684,192	396,480

Gain on investments in associates for the year ended December 31, 2011 represents gains relating to the JEC and TCCL transactions (see Note 10) (2010: represents gain relating to FRHI and REIC transactions of Saudi Riyals 371 million, see Note 10).

Others for the year ended December 31, 2011 include gain from sale of hotel properties amounting to Saudi Riyals 128.7 million (2010: Saudi Riyals 54 million). Others for 2010 also include certain cost of Saudi Riyals 31 million incurred by the Group in connection with the acquisition of additional shares in KHI (see Note 1).

23(b) Others

Other revenue for the year ended December 31, 2011 of Saudi Riyals 132.5 million includes reversal of provision of Saudi Riyals 73 million.

24 General and administrative expenses

	2011	2010
Employee costs	**176,223**	187,746
Professional fees	**90,816**	95,712
Repairs and maintenance	**17,476**	38,365
Selling and marketing expenses	**25,637**	27,009
Utilities and office expenses	**20,957**	24,940
Insurance	**2,286**	3,853
Other	**80,954**	76,696
	414,349	454,321

25 Reversal of impairment losses

During the year ended December 31, 2011, the Company reviewed the carrying value of certain assets held for sale and certain other investments based on an updated valuation of the current fair value of these investments. This has resulted in an increase in the carrying value of Saudi Riyals 189.3 million. Accordingly, such increase has been recorded as a reversal of impairment loss, which was initially recorded in prior years against these investments.

26 Commitments

(a) Capital commitments

The Group has on-going activities to construct and renovate hotels, and these developments are at various stages of completion. The total outstanding capital commitments relating to such developments as of December 31, 2011 amounted to Saudi Riyals 207 million (2010: Saudi Riyals 508 million).

(b) Operating lease commitments

The Group has various commitments under operating leases. Future minimum annual payments under these leases are as follows:

	2011	2010
Within one year	**12,559**	9,776
1 to 5 years	**40,075**	35,447
	52,634	45,223

27 Contingencies

The Company and its subsidiaries are defendant in various legal claims arising in the normal course of business. Provision has been established for certain claims, based on the information presently available. Management believes that the existing liabilities provided for such claims are adequate. Any additional liabilities including any potential tax assessments that may result in connection with other claims are not expected to have a material effect on the Group's financial position or results of operation.

At December 31, 2011, the Group has outstanding letters of guarantee amounting to Saudi Riyals 9.52 million (2010: Saudi Riyals 30.4 million) issued in the normal course of business.

28 Financial instruments and risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value and cash flow interest rate risks and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Risk management is carried out by senior management under policies approved by the board of directors. The most important types of risk are credit risk, currency risk, price risk and fair value and cash flow interest rate risks.

Financial instruments carried on the balance sheet principally include cash and cash equivalents, investments, receivables and certain other assets, bank borrowings, term loans, payables and certain other liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Financial asset and liability is offset and net amounts reported in the financial statements, when the Group has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and liability simultaneously.

Fair value and cash flow interest rate risk

Fair value and cash flow interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial positions and cash flows. The Group is subject to interest rate risk on its interest bearing assets and liabilities, including loans and bank borrowings and time deposits.

The sensitivity of the income/expense is the effect of the assumed changes in interest rates on the Group's net results for one year, based on the floating rate financial assets and financial liabilities held at December 31, 2011 and 2010.

Equity price risk

Equity price risk is the risk that the fair value of equity securities may decrease as the result of changes in the levels of equity indices and the value of individual equities. The Group's available for sale investments and held for trading are subject to price risk as its underlying investments are equity instruments. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio to the extent possible.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and will cause the other party to incur a financial loss. The Group seeks to manage its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables.

The table below shows the maximum exposure to credit risk for the significant components of the balance sheet:

	2011	2010
Bank balances and short term deposits	**1,263,218**	1,293,581
Other current assets	**480,274**	303,743
Accounts receivable	**221,872**	302,938
Other long term assets	**50,220**	122,927
	2,015,584	2,023,189

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available through committed banking facilities to meet any future commitments. The Group's terms of sales require amounts to be paid around 30 days of the date of sale. Trade payables are normally settled within 60 days of the date of purchase.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Group monitors the fluctuation in currency exchange rates and manages its effect on the consolidated financial statements accordingly.

29 Fair values

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the Group's financial instruments are compiled under the historical cost convention, except for available for sale and held for trading investments which are carried at fair values, differences can arise between the book values and fair value estimates.

The Group estimates the fair values of its financial instruments based on appropriate valuation methodologies. However, considerable judgment is necessary to develop these estimates. Accordingly, estimates of fair values are not necessarily an indicative of what the Group could realize in a current market exchange. The use of different assumptions or methodologies may have a material effect on the estimated fair value amounts.

The Group has determined that the fair values of their financial instruments at year end approximate their carrying amounts.

30 Segment information

The Group's primary operations are organized into the following 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.

(All amounts in Saudi Riyals thousands unless otherwise stated)

Private equity - The principal activity includes investments in private equities, managed funds and other entities existing within 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.

Prior year comparative figures reflect the consolidation of a subsidiary that was reclassified to associate during the current year (Note 10).

a) Selected financial information as of and for the year ended December 31, summarized by the above business segments, was as follows:

December 31, 2011	Equity	Hotels	Real Estate and Domestic	Total
Total revenues	**59,261**	**1,779,854**	**1,363,165**	**3,202,280**
Gross (loss) profit	**(37,727)**	**377,116**	**807,102**	**1,146,491**
Net (loss) income	**(283,615)**	**85,600**	**837,630**	**639,615**
Property and equipment, net	**57,504**	**7,146,347**	**528,853**	**7,732,704**
Total assets	**13,629,681**	**19,462,413**	**6,597,796**	**39,689,890**
Total liabilities	**8,304,442**	**5,049,377**	**395,893**	**13,749,712**

December 31, 2010	Equity	Hotels	Real Estate and Domestic	Total
Total revenues	46,012	2,209,022	1,487,997	3,743,031
Gross (loss) profit	(26,917)	414,333	988,092	1,375,508
Net (loss) income	(288,729)	40,622	853,353	605,246
Property and equipment, net	55,635	7,415,600	1,683,185	9,154,420
Total assets	14,661,783	20,427,698	7,098,789	42,188,270
Total liabilities	7,431,104	5,310,686	1,049,782	13,791,572

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

b) As set out in Note 1 to the consolidated financial statements, 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.

31 Earnings per share

Earnings per share for the years ended December 31, 2011 and 2010 has been computed by dividing the income from operations and net income for each of the year by the number of shares outstanding during such years of 3,706 million shares.

32 Dividends declaration

The General Assembly of the Company, in its annual meeting which was held on Rabi Thani 22, 1432H (corresponding to March 27, 2011) approved the cash dividends distribution of Saudi Riyals 137.5 million per quarter totaling to Saudi Riyals 550.3 million for the year, as recommended by the Company’s board of directors.

The first, second, third and fourth dividend distributions were made to all shareholders on record as of the dates approved in the General Assembly meeting.

33 Derivative financial instruments

The Group uses interest rates swaps and collars to hedge against the cash flow risks arising on the floating borrowings and forward currency contracts to hedge against cash flow risks arising on fluctuation in certain foreign currencies. The fair value of derivative financial instruments at December 31 together with the notional amount is as follows:

	2011		2010	
	Contract notional amount	Negative fair value Saudi Riyals	Contract notional amount	Negative fair value Saudi Riyals
Interest rate swap	**Euro 113 million**	**(3,880)**	Euro 113 million	(5,020)
Interest rate swap	**-**	**-**	US$ 27.8 million	(6,398)
Interest rate collar	**US$ 13.5 million**	**(1,519)**	US$ 14.3 million	(2,591)
Foreign currency contracts	**US$ 19.4 million**	**4,432**	US$ 21.4 million	1,354

The derivatives above are effective cash flow hedges and have various maturities up to March 2013.

34 Comparative figures

Certain reclassifications have been made to the 2010 consolidated financial statements to conform with the current year presentation.

In addition, prior year amounts reflect the consolidation of a subsidiary that was classified as an associate during the current year (Note 1).

KINGDOM HOLDING COMPANY ...

An Astute Investment Strategy In The Local, Regional & International Markets