



KINGDOM HOLDING COMPANY

(A Saudi Joint Stock Company)

**Interim Condensed Consolidated Financial
Statements**

**For the three-month and six-month periods ended
30 June 2017 (unaudited)**

KINGDOM HOLDING COMPANY
(A Saudi Joint Stock Company)
Interim condensed consolidated financial statements for the three-month and six-month periods ended
30 June 2017 (Unaudited)

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INDEPENDENT AUDITORS' REPORT ON REVIEW OF
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To: **The Shareholders**
Kingdom Holding Company
(A Saudi Joint Stock Company)
Riyadh, Kingdom of Saudi Arabia

Introduction

We have reviewed the accompanying 30 June 2017 interim condensed consolidated financial statements of **Kingdom Holding Company (the "Company")** and its subsidiaries (collectively referred to as the "Group") which comprises:

- the condensed consolidated statement of financial position as at 30 June 2017;
- the condensed consolidated statement of profit or loss for the three-month and six-month periods ended 30 June 2017;
- the condensed consolidated statement of comprehensive income for the three-month and six-month periods ended 30 June 2017;
- the condensed consolidated statement of changes in equity for the six-month period ended 30 June 2017;
- the condensed consolidated statement of cash flows for the six-month period ended 30 June 2017; and
- the notes to the interim condensed consolidated financial statements.

Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' that is endorsed in the Kingdom of Saudi Arabia. A review of interim condensed consolidated financial statements consist of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 June 2017 interim condensed consolidated financial statements of **Kingdom Holding Company** and its subsidiaries are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia.

For KPMG Al Fozan & Partners
Certified Public Accountants

Abdullah Hamad Al Fozan
License No.: 348



Riyadh on: 16 Dhul-Qa'dah 1438H
Corresponding to: 8 August 2017

KINGDOM HOLDING COMPANY
(A Saudi Joint Stock Company)
Interim condensed consolidated financial statements for the three-month and six-month periods ended 30 June 2017 (Unaudited)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 30-Jun-17 SAR '000	As at 31-Dec-16 SAR '000	As at 1-Jan-16 SAR '000
ASSETS				
Current assets				
Cash and bank balances		3,022,161	4,337,052	2,633,813
Investments at fair value through profit or loss	10	123,014	605,663	4,427,491
Accounts receivable and other current assets		834,325	988,676	873,921
Due from related parties		90,000	90,824	92,109
Assets held for sale		--	--	246,748
Total current assets		4,069,500	6,022,215	8,274,082
Non-current assets				
Investments at fair value through profit or loss	10	725,187	399,850	399,850
Investments at fair value through other comprehensive income	10	10,360,748	8,973,216	8,235,079
Equity-accounted investees	13	13,866,987	14,123,741	16,401,258
Investment properties		3,152,866	2,094,448	2,087,005
Property, plant and equipment		8,162,201	7,946,435	5,442,668
Intangible assets and goodwill		1,764,101	1,692,970	1,719,419
Deferred tax assets		40,022	26,481	25,446
Other long term assets		340,438	444,943	348,129
Total non-current assets		38,412,550	35,702,084	34,658,854
Total assets		42,482,050	41,724,299	42,932,936
LIABILITIES				
Current liabilities				
Borrowings	14	296,425	512,534	1,899,365
Accounts payable, accrued expenses and other current liabilities		506,469	496,866	520,093
Zakat and income tax payable		221,560	161,621	106,161
Due to related parties		152,098	207,336	169,682
Dividends payable		327,971	--	163,985
Total current liabilities		1,504,523	1,378,357	2,859,286
Non-current liabilities				
Borrowings	14	9,438,279	10,621,807	10,575,428
Deferred tax liabilities		244,512	223,578	228,867
Employee benefit obligations		162,580	160,313	95,189
Other long term liabilities		11,965	16,202	10,480
Total non-current liabilities		9,857,336	11,021,900	10,909,964
Total liabilities		11,361,859	12,400,257	13,769,250
Net assets		31,120,191	29,324,042	29,163,686
EQUITY				
Share capital	17	37,058,823	37,058,823	37,058,823
Statutory reserve		599,069	599,069	548,081
Retained earnings		950,507	1,270,814	2,327,718
Unrealised loss on investments at fair value through other comprehensive income		(8,819,234)	(10,177,824)	(10,892,025)
Other reserves	18	(142,550)	(517,729)	(423,510)
Equity attributable to shareholders of the Company		29,646,615	28,233,153	28,619,087
Non-controlling interests		1,473,576	1,090,889	544,599
TOTAL EQUITY		31,120,191	29,324,042	29,163,686

The notes on pages 9 to 26 form an integral part of these interim condensed consolidated financial statements.

KINGDOM HOLDING COMPANY
(A Saudi Joint Stock Company)
Interim condensed consolidated financial statements for the three-month and six-month periods ended 30 June 2017
(Unaudited)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	Three-month period ended		Six-month period ended	
		30-June-17	30-June-16	30-June-17	30-June-16
		SAR '000	SAR '000	SAR '000	SAR '000
Revenues					
Hotels and other operating revenues		445,286	432,992	833,073	895,915
Dividend income		17,967	5,615	37,478	27,179
Income from and gain / (loss) on investments	11.2	76,927	(4,678)	331,541	146,820
Other revenues		—	29,855	—	34,345
Total revenues		540,180	463,784	1,202,092	1,104,259
Hotels and other operating costs		(336,034)	(327,021)	(643,155)	(693,027)
Gross profit		204,146	136,763	558,937	411,232
General, administrative and marketing expenses		(100,429)	(96,203)	(164,618)	(155,125)
Share of results from equity-accounted investees	12	47,119	(3,428)	40,551	10,142
Other gains, net	13	218,763	—	192,652	—
Income from operations		369,599	37,133	627,522	266,249
Financial charges, net		(96,451)	(92,507)	(201,980)	(178,755)
Profit / (loss) before zakat and income tax		273,148	(55,374)	425,542	87,494
Zakat and income tax		(51,747)	(14,099)	(74,902)	(29,334)
Profit / (loss) for the period		221,401	(69,473)	350,640	58,160
Profit / (loss) for the period attributable to:					
- Owners of the Company		216,303	(79,975)	345,391	34,548
- Non-controlling interests		5,098	10,502	5,249	23,612
		221,401	(69,473)	350,640	58,160
Basic and diluted earnings / (loss) per share (Saudi Riyals)		0.06	(0.02)	0.09	0.02

The notes on pages 9 to 26 form an integral part of these interim condensed consolidated financial statements.

KINGDOM HOLDING COMPANY
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Interim condensed consolidated financial statements for the three-month and six-month periods ended 30 June 2017 (Unaudited)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Three-month period ended		Six-month period ended	
		30-June-17	30-June-16	30-June-17	30-June-16
		SAR '000	SAR '000	SAR '000	SAR '000
Profit / (loss) for the period		221,401	(69,473)	350,640	58,160
Other comprehensive income:					
<i>Items that will not be reclassified subsequently to profit or loss</i>					
Investments at fair value through other comprehensive income – net changes in fair value	11.1	1,051,810	5,712	1,348,833	(1,547,552)
<i>Items that may be reclassified subsequently to profit or loss</i>					
Share in other comprehensive income of equity-accounted investees	18	(66,818)	–	(12,165)	–
Exchange differences on translation of foreign operations and others	18	470,942	36,010	387,859	69,313
Total comprehensive income / (loss) for the period		1,677,335	(27,751)	2,075,167	(1,420,079)
Total comprehensive income / (loss) for the period attributable to:					
- Owners of the Company		1,673,945	(38,253)	2,069,403	(1,443,691)
- Non-controlling interests		3,390	10,502	5,764	23,612
		1,677,335	(27,751)	2,075,167	(1,420,079)

The notes on pages 9 to 26 form an integral part of these interim condensed consolidated financial statements.




KINGDOM HOLDING COMPANY
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Interim condensed consolidated financial statements for the three-month and six-month periods ended 30 June 2017 (Unaudited)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Statutory reserve	Retained earnings	Unrealised loss on investments at fair value through other comprehensive income	Other reserves	Equity attributable to shareholders of the Company	Non-controlling interests	Total equity
SAR '000								
Balance at 1 January 2017	37,058,823	599,069	1,270,814	(10,177,824)	(517,729)	28,233,153	1,090,889	29,324,042
Profit for the period	—	—	345,391	—	—	345,391	5,249	350,640
Movement in unrealised gain on investments at fair value through other comprehensive income	—	—	—	1,348,833	—	1,348,833	—	1,348,833
Unrealized loss on investments at fair value through other comprehensive income transferred to retained earnings on disposal	—	—	(9,757)	9,757	—	—	—	—
Share of other comprehensive loss of equity-accounted investees	—	—	—	—	(12,165)	(12,165)	—	(12,165)
Exchange differences on translation of foreign operations and others	—	—	—	—	387,344	387,344	515	387,859
Total comprehensive income for the period	—	—	335,634	1,358,590	375,179	2,069,403	5,764	2,075,167
Change in non-controlling interests	—	—	—	—	—	—	376,923	376,923
Transactions with owners in their capacity as owners:								
Dividends provided for or paid	—	—	(655,941)	—	—	(655,941)	—	(655,941)
Balance at 30 June 2017	37,058,823	599,069	950,507	(8,819,234)	(142,550)	29,646,615	1,473,576	31,120,191

The notes on pages 9 to 26 form an integral part of these interim condensed consolidated financial statements.

KINGDOM HOLDING COMPANY
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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

SAR '000	Share capital	Statutory reserve	Retained earnings	Unrealised loss on investments at fair value through other comprehensive income	Other reserves	Equity attributable to shareholders of the Company	Non-controlling interests	Total equity
Balance at 1 January 2016	37,058,823	548,081	2,327,718	(10,892,025)	(423,510)	28,619,087	544,599	29,163,686
Profit for the period	--	--	34,548	--	--	34,548	23,612	58,160
Movement in unrealised loss on investments at fair value through other comprehensive income	--	--	--	(1,547,552)	--	(1,547,552)	--	(1,547,552)
Exchange differences on translation of foreign operations and others	--	--	--	--	69,313	69,313	--	69,313
Total comprehensive income for the period	--	--	34,548	(1,547,552)	69,313	(1,443,691)	23,612	(1,420,079)
Change in non-controlling interests	--	--	--	--	--	--	(28,043)	(28,043)
Transactions with owners in their capacity as owners:								
Dividends provided for or paid	--	--	(655,941)	--	--	(655,941)	--	(655,941)
Balance at 30 June 2016	37,058,823	548,081	1,706,325	(12,439,577)	(354,197)	26,519,455	540,168	27,059,623

The notes on pages 9 to 26 form an integral part of these interim condensed consolidated financial statements.

KINGDOM HOLDING COMPANY
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Notes to the interim condensed consolidated financial statements for the three-month and six-month periods ended 30 June 2017 (Unaudited)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	30-June-17 SAR '000	30-June-16 SAR '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before zakat and income tax		425,542	87,494
Adjustments for:			
Depreciation and amortisation		153,451	88,757
Gain on sale of investments at fair value through profit or loss	11.2	(235,977)	(148,879)
Unrealised (gain) / loss on revaluation of investments at fair value through profit or loss	11.2	(95,564)	2,059
Share of results from equity-accounted investees	12	(40,551)	(10,141)
Other gains , net	13	(192,652)	—
Dividend income		(37,478)	(27,179)
Financial charges, net		201,980	178,755
		<u>178,751</u>	<u>170,866</u>
Changes in operating assets and liabilities			
Accounts receivable and other current assets		97,558	(43,735)
Due from related parties		824	87,005
Employee benefit obligations		2,267	4,511
Accounts payable, accrued expenses and other current liabilities		(29,234)	(154,057)
Due to related parties		(1,350)	—
Investments at fair value through profit or loss		488,645	2,124,761
Cash generated from operations		<u>737,461</u>	<u>2,189,351</u>
Zakat and income tax paid		(16,791)	(11,510)
Net cash generated from operating activities		<u>720,670</u>	<u>2,177,841</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Disposal of equity accounted investee		52,470	—
Acquisition of equity-accounted investees		—	(97,502)
Dividend received from equity accounted investee	12	58,819	19,633
Acquisition of subsidiary, net of cash acquired	8	11,402	—
Purchase of investments at fair value through other comprehensive income		—	(3,994)
Proceeds from sale of investments at fair value through other comprehensive income		66,437	559,036
Purchase of investment property		—	(642)
Payments for property, plant and equipment, net		(286,065)	(41,336)
Other long term assets		3,505	(20,551)
Other long term liabilities		(4,237)	(6,125)
Dividends received		37,478	27,179
Net cash (used in) / generated from investing activities		<u>(60,191)</u>	<u>435,698</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		(191,794)	(178,755)
Proceeds from borrowings		180,897	43,581
Repayments of borrowings		(1,665,534)	(1,940,994)
Transactions with non-controlling interests		29,031	—
Dividends paid to shareholders		(327,970)	(491,955)
Net cash used in financing activities		<u>(1,975,370)</u>	<u>(2,568,123)</u>
Net (decrease) / increase in cash and bank balances		<u>(1,314,891)</u>	<u>45,416</u>
Cash and bank balances at 1 January		<u>4,337,052</u>	<u>2,633,813</u>
CASH AND BANK BALANCES AT THE END OF THE PERIOD		<u>3,022,161</u>	<u>2,679,229</u>
Non-cash transactions:			
Movement in investments at fair value through other comprehensive income	11.1	1,348,833	(1,547,552)
Net assets transferred on the acquisition of Subsidiary	8	1,077,310	—
Exchange differences on translation of foreign operations		387,859	69,313

The notes on pages 9 to 26 form an integral part of these interim condensed consolidated financial statements.

KINGDOM HOLDING COMPANY
(A Saudi Joint Stock Company)

Notes to the interim condensed consolidated financial statements for the three-month and six-month periods ended 30 June 2017 (Unaudited)

1 CORPORATE INFORMATION

Kingdom Holding Company (the "Company" or "KHC") 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 28 May 1996). The Ministry of Commerce and Industry approved, pursuant to resolution number 128/S dated Jumad Awwal 18, 1428H (corresponding to June 4, 2007), the conversion of the Company into JSC.

The Company and its subsidiaries (the "Group") carry out its activities through the entities listed below. The principal activities of the Group 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 28 July 2007 after approval by the Capital Market Authority.

The Company's head office is located in Riyadh at the following address:

Kingdom Holding Company
66th Floor, Kingdom Centre
P.O. Box 1, Riyadh 11321
Kingdom of Saudi Arabia

These interim condensed consolidated financial statements (the "consolidated financial statements") were authorized for issue by the Company's Board of Directors on 7 August 2017.

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 equity-accounted investees.

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 equity-accounted investees that own and manage properties and hotels:

	Effective Ownership Percentage	
	30-June-17	30-June-16
<u>Subsidiaries</u>		
Kingdom Hotel Investments (KHI) - Cayman Islands	100.0	100.0
Kingdom 5 KR 35 Group (George V) - France (Direct and indirect ownership through KHI)	100.0	100.0
<u>Equity-accounted investees</u>		
Fairmont Raffles Holdings International (FRHI) - Canada	—	35.4
Four Seasons Holding Inc. (FSH Inc.) - Canada	47.5	47.5
Mövenpick Hotels and Resorts AG (Mövenpick) - Switzerland	33.3	33.3
Sahara Plaza LLC - United States of America (Sahara) (note 12)	—	25.0
Accor S.A.	5.8	—

d) Kingdom 5-KR-114 Limited (KR-114)

KR-114 is a limited liability company incorporated in the Cayman Islands. The company's principal activity represents ownership in Breezroad Limited which became a subsidiary on 12 July 2016.

KINGDOM HOLDING COMPANY
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Notes to the interim condensed consolidated financial statements for the three-month and six-month periods ended 30 June 2017 (Unaudited)

1 CORPORATE INFORMATION (Continued)

e) Local and regional subsidiaries

The Company also has ownership in the following local and regional subsidiaries and equity-accounted investees:

	Effective Ownership Percentage	
	30-June-17	30-June-16
<u>Subsidiaries</u>		
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
Consulting Clinic SAL (Clinic) - Lebanon	50.4	50.4
Real Estate Investment Company (REIC) - Saudi Arabia (Note 8)	69.4	--
Kingdom Agriculture Development Company (KADCO) - Egypt*	--	100.0
Kingdom Real Estate Development Company (KRED) - Saudi Arabia	100.0	100.0
<u>Equity-accounted investees</u>		
National Air Services (NAS) - Saudi Arabia	34.1	34.1
Jeddah Economic Company (JEC) - Saudi Arabia	33.4	33.4
Real Estate Investment Company (REIC) - Saudi Arabia (Note 8)	--	38.9
Trade Centre Company Limited (TCCL) - Saudi Arabia	36.0	36.0

* KADCO has been disposed of during the period. Sale proceeds approximate to historical cost and carrying amount as of the date of disposal. Hence, no gain or loss has been recorded in the books.

The principal activities and the various segments of the Group are described in Note 9.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The accompanying Interim Condensed Consolidated Financial Statements ("Financial Statements") have been prepared in accordance with IAS 34 Interim Financial Reporting as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants ("SOCPA"). Up to and including the year ended 31 December 2016, the Group prepared and presented statutory financial statements in accordance with the generally accepted accounting standards in the Kingdom of Saudi Arabia issued by SOCPA and the requirements of the Saudi Arabian Regulations for Companies and the Company's By-laws in so far as they related to the preparation and presentation of the financial statements. In these financial statements, the term "SOCPA" refers to the generally accepted accounting principles ("GAAP") before the adoption of IFRS.

For financial periods commencing 1 January 2017, the applicable regulations require the Group to prepare and present financial statements in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by SOCPA. As part of this requirement, the Group has prepared these Financial Statements.

As required by the Capital Market Authority ("CMA") through its circular dated 16th October 2016 the Group needs to apply the cost model to measure the property and equipment, investment property, and intangible assets upon adopting the IFRS for three years period starting from the IFRS adoption date.

As these interim condensed consolidated financial statements prepared in accordance with IAS 34 Interim Financial Reporting as endorsed in the Kingdom of Saudi Arabia are for part of a period covered by its first IFRS financial statements, IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied. The accounting policies followed in these interim financial statements are the same as those applied in the Group's interim condensed consolidated financial statements for the period ended 31 March 2017. The Group has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect.

An explanation of how the transition to IFRS has affected the previously reported equity as at 30 June 2016; and comprehensive income of the Group for the three and six months ended 30 June 2016, including the nature and effect of significant changes in accounting policies from those used in the Group's financial statements for the year ended 31 December 2016 is provided in Notes 5, 6 and 7.

The financial statements should be read in conjunction with the Group's SOCPA GAAP annual consolidated financial statements for the year ended 31 December 2016 prepared in accordance with SOCPA GAAP, and the Group's interim condensed consolidated financial statements for the period ended 31 March 2017 prepared in accordance with IAS 34 Interim Financial Reporting as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants ("SOCPA")

As part of its transition to IFRS, the Group elected to early apply IFRS 9 Financial Instruments (IFRS 9).

KINGDOM HOLDING COMPANY
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Notes to the interim condensed consolidated financial statements for the three-month and six-month periods
ended 30 June 2017 (Unaudited)

2 BASIS OF PREPARATION (Continued)

2.2 Historical cost convention

These consolidated financial statements have been prepared under the historical cost convention, except for certain financial assets and liabilities (including derivatives) that are measured at fair value and included in investment at fair value through profit or loss (FVTPL), investment at fair value through other comprehensive income (FVOCI) and other long term financial assets. Further, the employee benefit obligations have been calculated using the projected unit credit method (PUCM) and actuarial assumptions.

3 USE OF ESTIMATES, ASSUMPTIONS AND JUDGMENTS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, costs, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

These estimates and assumptions are based upon experience and various other factors that are believed to be reasonable under the circumstances and are used to judge the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions have been reviewed on an ongoing basis. Revisions to accounting estimates have been recognised in the period in which the estimates are revised or in the revision period and future periods if the changed estimates affect both current and future periods.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are the same as those that applied to the Group's interim condensed consolidated financial statements as at and for the period ended 31 March 2017.

4 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in these interim condensed consolidated financial statements are the same as those applied in the Group's interim condensed consolidated financial statements as at and for the period ended 31 March 2017.

5 FIRST TIME ADOPTION OF IFRS

For the years up to and including the year ended 31 December 2016, the Group prepared its consolidated financial statements in accordance with SOCPA, the accounting principles generally accepted in the Kingdom of Saudi Arabia. From 1 January 2017 onward, the Group will prepare its consolidated financial statements in accordance with IFRS.

Accordingly, the Group has prepared an opening consolidated statement of financial position as at 1 January 2016, the Group's date of transition to IFRS. The Group will prepare its first set of financial statements which comply with IFRS applicable for year ending on 31 December 2017, together with the comparative period.

The Group has availed certain optional exemptions in preparing these consolidated financial statements in accordance with IFRS 1 – first time adoption of International Financial Reporting Standards from full retrospective application of IFRS. The exemptions used in preparing the financial statements are as follows:

- Designation of previously recognised financial asset as fair value through profit or loss (FVTPL) or fair value through other comprehensive income (FVTOCI); and
- Prospective application of effects of changes in foreign exchange rates (related to foreign operations adjustments and goodwill).

KINGDOM HOLDING COMPANY
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Notes to the interim condensed consolidated financial statements for the three-month and six-month periods ended 30 June 2017 (Unaudited)

6 IFRS 1 RECONCILIATIONS

6.1 RECONCILIATION OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 1 January 2016	Notes	SOCPA 31-Dec-15 SAR '000	Adjustments SAR '000	IFRS 1-Jan-16 SAR '000
ASSETS				
Current assets				
Cash and cash equivalents		2,633,813	—	2,633,813
Investments at FVTPL	7.1.1	1,982,094	2,445,397	4,427,491
Trade and other receivables		498,833	—	498,833
Prepayments and other current assets		375,088	—	375,088
Due from related parties		92,109	—	92,109
Assets held for sale		246,748	—	246,748
Total current assets		5,828,685	2,445,397	8,274,082
Non-current assets				
Investments at FVTPL	7.1.1	—	399,850	399,850
Investments at FVTOCI	7.1.1	11,080,326	(2,845,247)	8,235,079
Equity-accounted investees	7.8.2	16,384,596	16,662	16,401,258
Investment properties		2,087,005	—	2,087,005
Property, plant and equipment	7.7.2	5,421,698	20,970	5,442,668
Intangible assets and goodwill		1,719,419	—	1,719,419
Deferred tax assets		25,446	—	25,446
Other long term assets		348,129	—	348,129
Total non-current assets		37,066,619	(2,407,765)	34,658,854
Total assets		42,895,304	37,632	42,932,936
LIABILITIES				
Current liabilities				
Borrowings		1,899,365	—	1,899,365
Trade and other payables		110,150	—	110,150
Zakat and income tax payable		106,161	—	106,161
Due to related Parties		169,682	—	169,682
Dividends payable		163,985	—	163,985
Other current liabilities		409,943	—	409,943
Total current liabilities		2,859,286	—	2,859,286
Non-current liabilities				
Borrowings		10,575,428	—	10,575,428
Deferred tax liabilities		228,867	—	228,867
Employee benefit obligations	7.3.2	88,844	6,345	95,189
Other long term liabilities		10,480	—	10,480
Total non-current liabilities		10,903,619	6,345	10,909,964
Total liabilities		13,762,905	6,345	13,769,250
Net assets		29,132,399	31,287	29,163,686
EQUITY				
Share capital		37,058,823	—	37,058,823
Statutory reserve	7.6	548,081	—	548,081
Retained earnings	7.8.1	1,533,580	794,138	2,327,718
Unrealised loss on investments at FVTOCI	7.1.2	(10,126,110)	(765,915)	(10,892,025)
Other reserves	7.4.5	(422,287)	(1,223)	(423,510)
Equity attributable to shareholders		28,592,087	27,000	28,619,087
Non-controlling interests	7.3.4, 7.7.4	540,312	4,287	544,599
TOTAL EQUITY		29,132,399	31,287	29,163,686

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6 IFRS 1 RECONCILIATIONS (Continued)

As at 31 December 2016	Notes	SOCPA 31-Dec-16 SAR '000	Adjustments SAR '000	IFRS 31-Dec-16 SAR '000
ASSETS				
Current assets				
Cash and cash equivalents		4,337,052	—	4,337,052
Investments at FVTPL	7.1.3	144,809	460,854	605,663
Trade and other receivables		545,168	—	545,168
Prepayments and other current assets		443,508	—	443,508
Due from related parties		90,824	—	90,824
Total current assets		5,561,361	460,854	6,022,215
Non-current assets				
Investments at FVTPL	7.1.3	—	399,850	399,850
Investments at FVTOCI	7.1.3	9,833,920	(860,704)	8,973,216
Equity-accounted investees	7.8.2	14,192,081	(68,340)	14,123,741
Investment properties		2,094,448	—	2,094,448
Property, plant and equipment	7.7.6	7,925,862	20,573	7,946,435
Intangible assets and goodwill	7.2.1	1,710,371	(17,401)	1,692,970
Deferred tax assets		26,481	—	26,481
Other long term assets		444,943	—	444,943
Total non-current assets		36,228,106	(526,022)	35,702,084
Total assets		41,789,467	(65,168)	41,724,299
LIABILITIES				
Current liabilities				
Borrowings		512,534	—	512,534
Trade and other payables		143,365	—	143,365
Zakat and income tax payable		161,621	—	161,621
Due to related parties		207,336	—	207,336
Other current liabilities		353,501	—	353,501
Total current liabilities		1,378,357	—	1,378,357
Non-current liabilities				
Borrowings		10,621,807	—	10,621,807
Deferred tax liabilities		223,578	—	223,578
Employee benefit obligations	7.3.7	123,740	36,573	160,313
Other long term liabilities		16,202	—	16,202
Total non-current liabilities		10,985,327	36,573	11,021,900
Total liabilities		12,363,684	36,573	12,400,257
Net assets		29,425,783	(101,741)	29,324,042
EQUITY				
Share capital		37,058,823	—	37,058,823
Statutory reserve	7.6	599,069	—	599,069
Retained earnings	7.8.1	1,336,528	(65,714)	1,270,814
Unrealised loss on investments at FVTOCI	7.1.4	(10,237,238)	59,414	(10,177,824)
Other reserves	7.8.3	(426,563)	(91,166)	(517,729)
Equity attributable to shareholders of the Company		28,330,619	(97,466)	28,233,153
Non-controlling interests	7.3.8, 7.7.8	1,095,164	(4,275)	1,090,889
TOTAL EQUITY		29,425,783	(101,741)	29,324,042

While preparing the above reconciliation between SOCPA and IFRS balances, some of the balances shown under SOCPA column are disaggregated in accordance with the notes in the previously issued SOCPA financial statements. Further, title of some of the captions have been renamed in accordance with IFRS and may not match with the previously issued financial statements prepared under SOCPA.

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6 IFRS 1 RECONCILIATIONS (Continued)

6.2 RECONCILIATION OF CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE THREE MONTHS PERIOD ENDED 30 JUNE 2016.

		SOCPA	Reclassifications*	Adjustment	IFRS
	Notes	30-June-16			30-June-16
		SAR '000	SAR '000	SAR '000	SAR '000
Revenues					
Hotels and other operating revenues		432,992	—	—	432,992
Dividend income		5,615	—	—	5,615
Income from equity-accounted investees and joint venture, net		1,011	(1,011)	—	—
Income from and gain on investments and other revenues, net	7.1.5	256,772	—	(261,450)	(4,678)
Others		29,855	—	—	29,855
Total revenues		726,245	(1,011)	(261,450)	463,784
Costs and expenses					
Hotels and other operating costs	7.7.10	(283,312)	(43,880)	171	(327,021)
General and administrative expenses		(96,203)	96,203	—	—
Total costs and expenses		(379,515)	52,323	171	(327,021)
Gross profit		346,730	51,312	(261,279)	136,763
General, administration and other expenses		—	(96,203)	—	(96,203)
Depreciation		(43,880)	43,880	—	—
Share of results from equity-accounted investees	7.4.2, 7.7.9	—	1,011	(4,439)	(3,428)
Income from main operations		302,850	—	(265,718)	37,132
Financial charges, net		(92,507)	—	—	(92,507)
Profit / (loss) before non-controlling interests, zakat and income tax		210,343	—	(265,718)	(55,375)
Non-controlling interests		(10,421)	10,421	—	—
Profit / (loss) before zakat and income tax		199,922	10,421	(265,718)	(55,375)
Zakat and income tax		(14,099)	—	—	(14,099)
Net profit / (loss) for the period		185,823	10,421	(265,718)	(69,474)
Profit / (loss) for the period attributable to:					
- Owners of the parent		185,823	—	(265,799)	(79,976)
- Non-controlling interests	7.7.11	—	10,421	81	10,502
		185,823	10,421	(265,718)	(69,474)
Earnings / (loss) per share (Saudi Riyals):					
- Income from main operations		0.08			0.01
- Net income / (loss) for the period		0.05			(0.02)

* These reclassifications have been made to achieve better presentation of condensed consolidated statement of profit or loss in accordance with IFRS. These do not represent transition adjustments to IFRS.

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6 IFRS 1 RECONCILIATIONS (Continued)

**6.3 RECONCILIATION OF CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE
THREE MONTHS PERIOD ENDED 30 JUNE 2016**

	Notes	SOCPA 30-June-16 SAR '000	Adjustment SAR '000	IFRS 30-June-16 SAR '000
Net profit / (loss) for the period		185,823	(265,799)	(79,976)
Non-controlling interests		10,421	81	10,502
Profit for the period		196,244	(265,718)	(69,474)
Other comprehensive income:				
Items that will not be reclassified subsequently to profit or loss				
Investments at fair value through other comprehensive income – net changes in fair value		–	5,712	5,712
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translation of foreign operations	7.7.1, 7.7.2	–	36,010	36,010
Other comprehensive income for the period, net of zakat and tax		–	41,722	41,722
Total comprehensive income / (loss) for the period		196,244	(223,996)	(27,752)
Total comprehensive income / (loss) for the period is attributable to:				
- Owners of the parent		185,823	(224,077)	(38,254)
- Non-controlling interests		10,421	81	10,502

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6 IFRS 1 RECONCILIATIONS (Continued)

6.4 RECONCILIATION OF CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

		SOCPA	Reclassifications*	Adjustment	IFRS
	Notes	30-June-16			30-June-16
		SAR '000	SAR '000	SAR '000	SAR '000
Revenues					
Hotels and other operating revenues		895,915	--	--	895,915
Dividend income		27,179	--	--	27,179
Income from equity-accounted investees and joint venture, net		18,479	(18,479)	--	--
Income from and gain on investments and other revenues, net	7.1.5	393,727	--	(246,907)	146,820
Others		34,345	--	--	34,345
Total revenues		1,369,645	(18,479)	(246,907)	1,104,259
Costs and expenses					
Hotels and other operating costs		(604,270)	(88,757)	--	(693,027)
General and administrative expenses		(155,125)	155,125	--	--
Total costs and expenses		(759,395)	66,368	--	(693,027)
Gross profit		610,250	47,889	(246,907)	411,232
General, administration and other expenses		--	(155,125)	--	(155,125)
Depreciation		(88,757)	88,757	--	--
Share of results from equity-accounted investees	7.4.2	--	18,479	(8,338)	10,141
Income from main operations		521,493	--	(255,245)	266,248
Financial charges, net		(178,755)	--	--	(178,755)
Profit before non-controlling interests, zakat and income tax		342,738	--	(255,245)	87,493
Non-controlling interests		(23,612)	23,612	--	--
Profit before zakat and income tax		319,126	23,612	(255,245)	87,493
Zakat and income tax		(29,334)	--	--	(29,334)
Net profit for the period		289,792	23,612	(255,245)	58,159
Profit for the period attributable to:					
- Owners of the parent		289,792	--	(255,245)	34,547
- Non-controlling interests		--	23,612	--	23,612
		289,792	23,612	(255,245)	58,159
Earnings per share (Saudi Riyals):					
- Income from main operations		0.14			0.07
- Net income for the period		0.08			0.01

* These reclassifications have been made to achieve better presentation of consolidated statement of profit or loss in accordance with IFRS. These do not represent transition adjustments to IFRS.

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6 IFRS 1 RECONCILIATIONS (Continued)

6.5 RECONCILIATION OF CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

	Notes	SOCPA 30-June-16 SAR '000	Adjustment SAR '000	IFRS 30-June-16 SAR '000
Net profit for the period		289,792	(255,245)	34,547
Non-controlling interests		23,612	—	23,612
Profit for the period		313,404	(255,245)	58,159
Other comprehensive income:				
<i>Items that will not be reclassified subsequently to profit or loss</i>				
Investments at fair value through other comprehensive income – net changes in fair value	11.1	—	(1,547,552)	(1,547,552)
<i>Items that may be reclassified subsequently to profit or loss</i>				
Exchange differences on translation of foreign operations		—	69,313	69,313
Other comprehensive income for the period, net of zakat and tax		—	(1,478,239)	(1,478,239)
Total comprehensive income / (loss) for the period		313,404	(1,733,484)	(1,420,080)
Total comprehensive income / (loss) for the period is attributable to:				
- Owners of the parent		289,792	(1,733,484)	(1,443,692)
- Non-controlling interests		23,612	—	23,612

7 NOTES TO THE RECONCILIATIONS

7.1 Application of IFRS 9 (Financial Instruments) - classification of equity shares:

KHC adopted IFRS 9 on transition to IFRS. At the date of transition KHC held shares as Held for trading (HFT) and Available for sale (AFS). IFRS 9 allows KHC to designate its share portfolio at the date of transition as fair value through profit or loss (FVTPL) or fair value through other comprehensive income (FVTOCI) on an instrument by instrument basis.

The adjustment reflects transfer of three investments in equity shares from fair value through other comprehensive income (AFS as per SOCPA) to fair value through profit or loss. One of the investments at the date of transition was held by KR11 as both Held for trading (FVTPL as per IFRS 9) and available for sale (FVTOCI as per IFRS 9). KR 11 transferred all of such equity share to FVTPL to be designated as such. Other two investments were held as AFS only and are partly transferred to FVTPL to be designated as such.

7.1.1 Classification of available for sale equity shares amounting to SAR 2.8 million from Available for Sale “AFS” to FVTPL (SAR 400 million to non-current and SAR 2.4 million to current).

7.1.2 Classification of net unrealised gains relating to available for sale shares amounting to SAR 765.9 million from other comprehensive income reserve to retained earnings.

7.1.3 Classification of available for sale equity shares amounting to SAR 860.7 million from Available for Sale “AFS” to FVTPL (SAR 400 million to non-current and SAR 460.8 million to current).

7.1.4 Classification of net unrealised losses relating to available for sale amounting to SAR 59.4 million from other comprehensive income reserve to retained earnings.

7.1.5 Net loss amounting to SAR 261.4 million for the three-month period ended 30 June 2016 and net loss amounting to SR 246.9 million for the six-month period ended 30 June 2017. This is a result of reclassification of equity shares on the date of transition from Available for sale (“AFS”) to FVTPL (7.1.1).

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7 NOTES TO THE RECONCILIATIONS (Continued)

7.2 Exchange difference on translation of foreign operations and goodwill:

7.2.1 IFRS requires goodwill related to foreign operations to be retranslated. Goodwill of a foreign subsidiary of KHC has to be retranslated to the reporting currency (SAR) at each reporting date. The functional currency of the subsidiary is Euro (having functional currency different to presentation currency) and the retranslation loss of SAR 17.4 million related to goodwill as at 31 December 2016.

7.2.2 KHC has carried investments in foreign equity-accounted investees at historic cost. Under IFRS these investments are required to be retranslated at closing rate (as net investment in foreign operations). The retranslation resulted in a loss of SAR 30.5 million related to overseas equity-accounted investees of KHC.

7.3 Actuarial valuation:

Employee benefit obligations for companies incorporated in the Kingdom of Saudi Arabia is calculated in accordance with Saudi labour law. Under IAS-19 'Employee Benefits' post-employment benefits are classified as a defined benefit plan and are required to be calculated using the projected unit credit method "PUCM". PUCM involves an actuarial valuation. KHC has undertaken actuarial valuations for its group companies as at 1 January 2016 and 31 December 2016 which resulted in an increase in the liabilities, see details below:

Reference	Adjustments – 1 Jan 2016	Amounts SAR '000
7.3.1	Investment in equity accounted investees (credit)	892
7.3.2	EOSB liability (credit)	6,345
7.3.3	Retained earnings (debit)	6,458
7.3.4	Non-controlling interest (debit)	779
Reference	Adjustments – 31 Dec 2016	
7.3.5	Investment in equity accounted investees (credit)	1,814
7.3.6	Retained earnings (debit)	15,667
7.3.7	EOSB liability (credit)	36,573
7.3.8	Non-controlling interest (debit)	9,276
7.3.9	Other comprehensive income / Other reserves (debit)	13,943
7.3.10	Other reserve – share in equity-accounted investees (credit)	499

The effects of actuarial valuations for the three months period ended 31 March 2016 are not materially different from the carrying amount and therefore, no adjustments are recorded for the period.

7.4 IFRS conversion adjustment for equity-accounted investees ("Associates"):

IFRS conversion adjustment of associate 1:

The IFRS conversion of one of the equity-accounted investee lead to an adjustment of capitalised ineligible cost. These costs were SAR 32 million as at 1 January 2016 and SAR 50 million as at 31 December 2016. KHC's share in the associate is 33.35%.

7.4.1 KHC's share of ineligible cost adjustment at 1 January 2016: SAR (10.6) million

7.4.2 KHC's share of ineligible cost for three-month period ended 30 June 2016 amounting to SAR 4.2 million and for six-month period ended 30 June 2016 amounting to SAR 8.3 million.

7.4.3 KHC's share in total ineligible costs adjusted: SAR (27.3) million.

IFRS conversion adjustments of associate 2:

The IFRS conversion of one of the equity-accounted investee lead to adjustments amounting to SAR 74,061 million as at 1 January 2016. KHC's share in these adjustments is SAR 24.7 million (retained earnings: SAR 23.5 million and other comprehensive income: SAR 1.2 million). KHC's share in IFRS conversion adjustment of the associate for the year ended 2016 is SAR 8.7 million (retained earnings: SAR 6.9 million and other comprehensive income: SAR 1.8 million).

7.4.4 KHC's share in the adjustment to retained earnings as at 1 January 2016: SAR (23.5) million.

7.4.5 KHC's share in the adjustment related to other comprehensive income: SAR (1.2) million.

7.4.6 Adjusted investment in the associate: SAR (24.7) million as at 1 January 2016.

7.4.7 KHC's share in the adjustment related to retained earnings as at 31 December 2016: SAR (30.4) million.

7.4.8 KHC's share in the adjustment related to other comprehensive income as at 31 December 2016: SAR (2.9) million.

7.4.9 Adjusted investment in the associate: SAR (33.4) million as at 31 December 2016.

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7 NOTES TO THE RECONCILIATIONS (Continued)

7.5 Share in other comprehensive income of equity-accounted investees:

The adjustments reflect share in other comprehensive income of equity-accounted investee (which was previously not recorded under SOCPA).

7.5.1 Adjustment to investment in equity-accounted investees for recognition of other comprehensive income and adjusted income of equity-accounted investees: SAR (26.8) million.

7.5.2 Adjustment to recognise share in other comprehensive income of equity-accounted investees: SAR (26.8) million.

7.6 Statutory reserve:

Transition to IFRS has not resulted in a change in the Company's statutory reserve.

7.7 Componentisation:

The Group carried out componentisation upon adoption of IFRS the impact of componentisation for the Group is as follows:

As at 1 January 2016

Reference	Adjustments	Amounts SAR '000
7.7.1	Investment in equity-accounted investees (debit)	52,906
7.7.2	Property plant and equipment (debit)	20,970
7.7.3	Retained earnings (credit)	68,810
7.7.4	Non-controlling interest (credit)	5,066

As at 31 December 2016

Reference	Adjustments	Amounts SAR '000
7.7.5	Investment in equity accounted investees (debit)	51,526
7.7.6	Property plant and equipment (debit)	20,573
7.7.7	Retained earnings (credit)	67,098
7.7.8	Non-controlling interest (credit)	5,001

For the three-month period ended 30 June 2016

Reference	Adjustments	Amounts SAR '000
7.7.9	Share in income of equity-accounted investees (debit)	270
7.7.10	Hotel and other operating costs (credit)	171
7.7.11	Profit attributable to non-controlling interest (credit)	81

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7 NOTES TO THE RECONCILIATIONS (Continued)

7.8 Summary of reconciliation adjustments:

7.8.1 Reconciliation of retained earnings (SAR '000).

Reference	SOCPA (31-Dec-15) – 1,533,580	Reference	SOCPA (31-Dec-16) – 1,336,528
7.1.2	765,915	7.1.4	(59,414)
7.3.3	(6,458)	7.3.6	(15,667)
7.4.4	(23,457)	7.4.3	(27,347)
7.7.3	68,810	7.4.7	(30,384)
7.4.1	(10,672)	7.7.7	67,098
	<u>794,138</u>		<u>(65,714)</u>
	IFRS (1-Jan-16) - 2,327,718		IFRS (31-Dec-16) - 1,270,814

7.8.2 Reconciliation of investments in equity-accounted investees (SAR '000).

Reference	SOCPA (31-Dec-15) – 16,384,596	Reference	SOCPA (31-Dec-16) – 14,192,081
7.3.1	(892)	7.5.1	(26,796)
7.4.1	(10,672)	7.3.5	(1,814)
7.4.6	(24,680)	7.4.3	(27,347)
7.7.1	52,906	7.4.9	(33,378)
		7.2.2	(30,531)
		7.7.5	51,526
	<u>16,662</u>		<u>(68,340)</u>
	IFRS (1-Jan-16) - 16,401,258		IFRS (31-Dec-16) - 14,123,741

7.8.3 Reconciliation of other reserves (SAR '000).

Reference	SOCPA (31-Dec-16) – (426,563)
7.4.8	(2,993)
7.5.2	(26,797)
7.3.10	499
7.2.1	(17,401)
7.3.9	(13,943)
7.2.2	(30,531)
	<u>(91,166)</u>
	IFRS (31-Dec-16) – (517,729)

7.9 Transition implications to the cash flows

Changes to consolidated statement of cash flows relate to disaggregation of financial statement line items seeking fairer presentation under IFRS for the consolidated statement of financial position and consolidated statement of comprehensive income which were presented as cumulative values under SOCPA. As a result of this, further financial statement line items have been added to the current consolidated statement of cash flows prepared under SOCPA.

7.10 Other adjustments:

Adjustments 7.2, 7.5 and 7.7 represent other adjustments identified during the IFRS transition process.

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8 BUSINESS COMBINATION ACHIEVED IN STAGES

During the current period, upon completion of legal formalities, Kingdom Holding Company increased its investment in REIC from 38.9 % to 69.4 %. This transaction resulted in the group recognizing REIC as a subsidiary and derecognizing the previously held equity accounted investee.

REIC as a subsidiary has contributed revenue of SR 16.3 million and profit of SR 8.2 million to the group's result. If the acquisition had occurred on 1 January 2017, management estimates that the consolidated revenue would have been higher by SR 16.1 million and consolidated profit for the period would have been higher by SR 8 million. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2017.

These consolidated financial statements include the results of REIC from 1 June 2017 as the Group has effectively obtained control of REIC from that date.

The fair value of identifiable assets and liabilities of REIC as at the date of acquisition were as follows:

SAR '000	1 June 2017
<u>Bargain purchase gain on acquisition</u>	
 <u>Assets acquired</u>	
Current Assets	82,197
Non-current assets	<u>1,110,590</u>
	1,192,787
 <u>Liabilities acquired</u>	
Current liabilities	(74,100)
Non-current liabilities	<u>(41,377)</u>
Fair value of net assets acquired	1,077,310
 Total acquisition cost	(544,074)
Non-controlling Interest	<u>(329,657)</u>
Gain on bargain purchase	<u>203,579</u>
 <u>Total acquisition cost:</u>	
Total consideration	125,000
Fair value of previously held equity interest	<u>419,074</u>
Total acquisition cost	<u>544,074</u>
 <u>Cash flow on acquisition:</u>	
Net cash acquired with subsidiary	11,402
Cash paid in current period	<u>-</u>
Net cash flow on acquisition	<u>11,402</u>

9 SEGMENT INFORMATION

The Group manages its operations by business segments. Management treats the operations of these segments separately for the purposes of monitoring, decision making and performance assessment.

Description of segments and principal activities

The Group's primary operations are organised into the following segments:

Equity Investments	<p>International - The principal activity includes investments in international quoted securities.</p> <p>Domestic and regional - The principal activity includes investments in securities quoted on the Saudi Stock Exchange, the regional Stock Exchanges and investments in equity-accounted investees other than real estate.</p> <p>Private equity - The principal activity includes investments in private equities, managed funds and other entities existing within the structure of the Group.</p>
Hotels	The principal activity of this segment includes investments in subsidiaries and equity-accounted investees that are in the business of managing and owning hotel properties and related activities.

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9 SEGMENT INFORMATION (Continued)

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

Health Care The principal activity includes hospital, pharmacy and consulting clinics.

All other segments The principal activities include operations of Kingdom School and other trading activities carried by the Group such as Fashion Village Trading Company.

	Equity Investments	Hotels	Real Estate — SAR '000 —	Health Care	All other segments	Total
2017						
Total assets	17,253,371	17,415,932	7,026,153	476,222	310,372	42,482,050
Total liabilities	6,488,857	4,473,015	131,945	132,838	135,204	11,361,859
Total revenue						
For the three-month period ended 30 June	94,894	324,396	16,312	80,185	24,393	540,180
For the six-month period ended 30 June	369,019	603,568	16,312	163,565	49,628	1,202,092
Net profit						
For the three-month period ended 30 June	147,555	50,795	5,748	1,182	16,121	221,401
For the six-month period ended 30 June	273,310	40,597	11,992	6,182	18,559	350,640
2016						
Total assets	19,004,869	15,684,039	6,231,034	489,212	315,145	41,724,299
Total liabilities	7,455,568	4,473,225	19,834	235,052	216,578	12,400,257
Total revenue						
For the three-month period ended 30 June	35,281	295,414	—	103,813	29,276	463,784
For the six-month period ended 30 June	208,344	611,625	—	215,979	68,311	1,104,259
Net profit / (loss)						
For the three-month period ended 30 June	(48,442)	(30,061)	17,015	(6,530)	(1,456)	(69,474)
For the six-month period ended 30 June	69,893	(56,470)	21,576	18,505	4,655	58,159

The management believes that the inter-segment revenues for the Group are insignificant and therefore have not been disclosed.

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10 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(i) Fair value hierarchy

To provide an indication about the reliability of the inputs used in determining fair value, the group classifies its financial instruments into the three levels prescribed under IFRS. An explanation of each level follows underneath the table.

The following table presents the group's financial assets measured and recognised at fair value:

	Level 1	Level 2	Level 3	Total
	— SAR '000 —			
As at 30 June 2017				
Financial assets				
<i>Investments at FVTPL:</i>				
- US listed securities (current)	123,014	--	--	123,014
- Middle East (non-current)	--	325,337	--	325,337
- Other (non-current)	--	--	399,850	399,850
	--	325,337	399,850	725,187
<i>Investments at FVTOCI (non-current):</i>				
- US listed securities	9,606,671	--	--	9,606,671
- Middle East	603,889	--	--	603,889
- Others	--	105,128	45,060	150,188
	10,210,560	105,128	45,060	10,360,748
Total financial assets at fair value	10,333,574	430,465	444,910	11,208,949
As at 31 December 2016				
Financial assets				
<i>Investments at FVTPL:</i>				
- US listed securities (current)	268,449	--	--	268,449
- Euro listed securities (current)	337,214	--	--	337,214
	605,663	--	--	605,663
- Others (non-current)	--	--	399,850	399,850
<i>Investments at FVTOCI (non-current):</i>				
- US listed securities	8,185,390	--	--	8,185,390
- Middle East	742,766	--	--	742,766
- Others	--	--	45,060	45,060
	8,928,156	--	45,060	8,973,216
Total financial assets at fair value	9,533,819	--	444,910	9,978,729

Level 1: The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

(ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- the use of quoted market prices, rates or dealer quotes for similar instruments.
- the discounted cash flow analysis; and
- Latest transaction price particularly for unquoted investments.

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10 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

(iii) Fair value measurement - Unquoted equity investment (level 3):

The fair value has been estimated by applying an internal valuation technique. The fair value measurement is based on significant inputs that are not observable in the market. The fair value is estimated to approximately equate the carrying amount.

(iv) Valuation process

The finance department of the group includes a team that performs the valuations of non-property items required for financial reporting purposes, including level 3 fair values. This team reports directly to the Chief Financial Officer (CFO) and the Audit Committee (AC). Discussions of valuation processes and results are held between the CFO, AC and the valuation team at least once every six months, in line with the group's half-yearly reporting periods.

The main level 3 inputs used by the group are derived and evaluated as follows:

- Discount rates for financial instruments are determined using a capital asset pricing model to calculate a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the asset.
- Risk adjustments specific to the counterparties (including assumptions about credit default rates) are derived from credit risk grading determined by an international audit rating agency.
- Earnings growth factor for unlisted equity securities are estimated based on market information for similar types of companies.

Furthermore, the management also takes in to account recent transaction price for same equity instruments when determining the fair value.

Changes in level 2 and 3 fair values are analysed on a regular basis and confirmed by the Management.

(v) Fair value of other financial instruments (unrecognised)

The group also has a number of financial instruments which are not measured at fair value in the consolidated statement of financial position. For the majority of these instruments, the fair values are not materially different to their carrying amounts, since the interest receivable/payable is either close to current market rates (mostly due to frequent re-pricing) or the instruments are short-term in nature.

11 INVESTMENTS

11.1 Movement in investments at FVTOCI, amounting to unrealised gain of SAR 1,349 million (2016: loss of SAR 1,548 million), represents change in fair value and is recorded in consolidated statement of comprehensive income.

11.2 Gain / (loss) on investments at FVTPL comprises of:

	Three-month period ended		Six-month period ended	
	30-June-17	30-June-16	30-June-17	30-June-16
	— SAR '000 —			
Gain on sale of investments at FVTPL*	—	97,864	235,977	148,879
Unrealised gain / (loss) on revaluation of investments at FVTPL	76,927	(102,542)	95,564	(2,059)
	<u>76,927</u>	<u>(4,678)</u>	<u>331,541</u>	<u>146,820</u>

* Carrying amount of investments amounts to SAR 485.2 million.

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12 EQUITY-ACCOUNTED INVESTEEES

	30-June-17	31-Dec-16
	— SAR '000 —	
At beginning of the period	14,123,741	16,401,258
Additions during the period	—	3,295,275
Dividends	(58,819)	(117,562)
Disposals during the period**	(55,143)	(5,303,478)
Share of results from equity-accounted investees	40,551	130,412
Transfer to consolidated subsidiary*	(347,643)	(185,831)
Transfer to financial assets at fair value through other comprehensive income**	(105,128)	—
Share in other comprehensive income	(12,165)	(28,067)
Unrealized exchange gain / (loss) on retranslation of equity-accounted investees	287,814	(30,531)
Other	(6,221)	(37,735)
At end of the period	13,866,987	14,123,741

*This represents group's 38.9% interest in REIC. During the period, the group acquired control over REIC and the investment has been de recognized as equity accounted investee. Fair value of 38.9% interest in REIC at acquisition date was SR 419 million (note 8). The group has recognized a one of gain amounting to SR 71 million on step acquisition (note 13).

**This represents investment in Sahara. During the period, the group disposed part of its investment in Sahara. As a result the remaining investment does not meet criteria of equity accounted investee and is now recognized as investment at fair value through other comprehensive income

13 OTHER GAINS, NET

Other gains comprise of:

	Three-month period ended 30-June-17	30-June-16	Six-month period ended 30-June-17	30-June-16
	— SAR '000 —		— SAR '000 —	
Gain on bargain purchase (note 8)	203,579	—	203,579	—
Gain on re-measurement of existing equity interest in REIC (note 12)	71,431	—	71,431	—
Loss on disposal of equity accounted investee	(2,674)	—	(2,674)	—
Others	(53,573)	—	(79,684)	—
	218,763	—	192,652	—

14 BORROWINGS

	30-June-17	31-Dec-16
	— SAR '000 —	
Kingdom Holding Company (KHC)	2,670,614	4,280,089
Kingdom 5-KR-11 Limited (KR11)	3,050,329	3,049,144
Kingdom KR-114 Limited (Savoy)	1,536,929	1,445,744
Kingdom 5-KR-35 Group (George V)	1,477,929	1,430,233
Kingdom Hotel Investments (KHI)	811,634	867,693
Real Estate Investment Company (REIC) - Saudi Arabia	74,000	—
Others	113,269	61,438
	9,734,704	11,134,341

The above outstanding balance is presented as follows:

	30-June-17	31-Dec-16
	— SAR '000 —	
<u>Current</u>		
Short-term loans	16,911	30,654
Current portion of term loans	279,514	481,880
	296,425	512,534
<u>Non-current</u>		
Term loans, including long-term revolving facilities	9,438,279	10,621,807

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15 CONTINGENCIES AND COMMITMENTS

The Company is a 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 zakat and tax assessments that may result in connection with other claims are not expected to have a material effect on the Group's condensed consolidated statement of financial position or condensed consolidated statement of profit or loss.

There have been no significant change in capital and operating lease commitments during the period.

16 RELATED PARTY TRANSACTIONS

The Company entered into various transactions with related parties at mutually agreed terms. These transactions, individually or in aggregate, are not material to the interim condensed consolidated financial statements. Below are the major transactions entered in with related parties.

	30-June-17 — SAR '000 —	30-June-16
Revenue earned by TCCL from rental of premises (offices, apartment and shops) to KHC group companies	4,560	16,140
Revenue earned by REIC from rental of villas and housing units to KHC group companies*	818	1,962
Finance cost on loan from REIC*	91	181
Transactions of KHI with equity-accounted investees	11,640	12,235

*These excludes transactions entered post acquisition of REIC.

17 SHARE CAPITAL

The share capital as at 30 June 2017, 31 December 2016 and 1 January 2016 consists of 3,706 million authorized and issued shares at par value of SAR 10 each.

18 OTHER RESERVES

	Share in other comprehensive income of equity- accounted investees	Exchange differences on translation of foreign operations including equity- accounted investees — SAR '000 —	Re- measurements of employee benefit obligations	Total
At 1 January 2016	(1,223)	(422,287)	—	(423,510)
Share in other comprehensive income	(26,797)	—	—	(26,797)
Actuarial losses on employee benefit obligations during the year	(1,270)	—	(13,943)	(15,213)
Unrealised exchange loss for the period on retranslation of foreign operations	—	(52,209)	—	(52,209)
At 31 December 2016	(29,290)	(474,496)	(13,943)	(517,729)
Share in other comprehensive income	(12,165)	—	—	(12,165)
Unrealised exchange loss for the period on retranslation of foreign operations	—	387,344	—	387,344
At 30 June 2017	(41,455)	(87,152)	(13,943)	(142,550)