



Dar Al-Arkan Real Estate Development Company

Board of Directors' Report for the
Financial Year Ended 31/12/2013

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1 *Chairman's Statement*

On behalf of the Board of Directors of Dar Al-Arkan Real Estate Development Company ("DAAR"), I am pleased to present the Annual Board of Directors Report for 2013 setting out the Company's business activities and achievements, as well as its consolidated financial statements for the fiscal year ended 31 December 2013.

DAAR ended 2013 with a very strong financial position; with an asset base of SR 24.2 billion, low debt levels and high liquidity. During 2013 DAAR managed its business and assets with a continued focus on growth, thus further establishing its continued leadership of the Saudi real estate sector.

2013 was an active and successful year for DAAR in the international Islamic Sukuk market, where it obtained finance at favourable profit rates. This reflects the global belief of DAAR's solid financial position enabling it to progress its investment plans. The effective management of DAAR's investments was also clearly evidenced by incremental growth of its asset base, expansion of the real estate portfolio and steady, balanced growth in shareholders' equity.

As previously announced, DAAR's medium and long term growth strategy is to generate stable revenues and maintain prudent cash flow management. To that end, the Company has a target for future income contributions being split between its principal business areas as follows: 50% from the sale of residential units as well as developed and undeveloped land; 40% from recurring income sources through leased residential and commercial units, and the remaining 10% through investment in associate companies and diversified financial instruments including shares and deposits.

To underpin the Company's ambitious strategic plans, in 2013 DAAR completed a comprehensive reorganisation of its management structure. As well as the structural reorganisation, DAAR's Board and executive management are looking to raise employees' accountability, excellence and performance, as a crucial step to improve operational efficiency. 2013 also saw progress in income diversification, driven principally by growth in income-generating leased properties. Further growth in leasing income is a key element to our strategy to improve the quality and stability of DAAR's revenues and profitability margins.

Geographical diversification is also part of the Company's strategy for growth and revenue diversification. To that end, the Company has begun studying some investment opportunities inside and outside the Kingdom, especially in attractive Asian and European markets. This diversification will be pursued in a prudent, gradual manner over the medium and long term.

The Saudi real estate market is characterized by high demand for property with lucrative investment opportunities and very low competition. It is therefore attractive for investment, particularly on a five year horizon.

2013 saw the implementation of rules for the Mortgage Laws enacted in 2012 and the application of these regulations, with licences already being issued to some local banks to practise real estate financing in accordance with the new mortgage law. This is expected to promote a quantum leap in the financing and legislative framework of the Saudi real estate sector. As DAAR is at the heart of this industry, any expected growth within it is expected to reflect positively on DAAR.

After a busy year focused on crystallising our strategic aims and applying operational plans for balancing and strengthening cash flow, we anticipate 2014 being a year of growth, enhancing DAAR's leadership position. We look forward to creating and nurturing thriving integrated communities, which fulfill and add value to the social, cultural, recreational, and commercial needs of our communities and maximizing long term financial returns for our investors.

Finally, I would like to extend my sincere thanks across the Company - to the Board of Directors, to executive management and to all employees for their role in bringing our strategic vision to life. We are grateful for the on-going support of our investors and will continue to focus on optimising shareholder returns. I would also like to extend my sincere appreciation to our customers, partners and suppliers for sharing our vision and mission for the future.



Chairman of the Board of Directors

Yousef Al Shalash

2 Company's Activities

Dar Al-Arkan Real Estate Development Company is a Saudi Joint Stock Company which started its business in 1994 under Commercial Registration No. 1010160195 and converted to a joint stock Company in 2005 under Ministerial decree number 1021 dated 10/06/1426 HD, corresponding to 17/07/2005

The Company operates solely in the Kingdom of Saudi Arabia and its main activity is real estate development. The Company established a number of limited liability companies in order to facilitate the achievement of its strategic objectives of diversifying the investment portfolio and its income sources.

2.1 The Company's Subsidiaries

2.1.1 Dar Al-Arkan Projects Company

Dar Al-Arkan Projects Company is a limited liability Company, a wholly owned subsidiary of Dar Al-Arkan Real Estate Development Company with a capital of SR 500,000 fully paid up, registered in Riyadh under the Commercial Registration No. 1010247583, dated 28/3/1429 H (corresponding to 5/4/2008). The Company operates in construction of residential and commercial buildings (construction, maintenance, demolition and restructuring) in the Kingdom of Saudi Arabia.

2.1.2 Dar Al-Arkan Properties Company

Dar Al-Arkan Properties Company is a limited liability Company, a wholly owned subsidiary of Dar Al-Arkan Real Estate Development Company with a capital of SR 500,000 fully paid up, registered in Riyadh under the Commercial Registration No. 1010254063, dated 25/7/1429 H (corresponding to 28/7/2008). The Company operates in development as well as the acquisition of commercial and residential real estates, provision of management, operation and maintenance of residential facilities, commercial buildings and public facilities in the Kingdom of Saudi Arabia.

2.1.3 Dar Al-Arkan Investment Company

Dar Al-Arkan Investment Company is a limited liability Company, a wholly owned subsidiary of Dar Al-Arkan Real Estate Development Company with a capital of SR 500,000 fully paid up, registered in Riyadh under the Commercial Registration No: 1010247585, dated 28/3/1429 H (corresponding to 5/4/2008). The Company operates in real estate procurement, acquisition, leasing and investment in the Kingdom of Saudi Arabia.

2.1.4 Dar Al-Arkan Sukuk Company

Dar Al-Arkan Sukuk Company is a limited liability Company, a wholly owned subsidiary of Dar Al-Arkan Real Estate Development Company with a capital of SR 500,000 fully paid up, registered in Riyadh under the Commercial Registration No: 1010256421, dated 16/9/1429 H (corresponding to 16/9/2008). The Company operates in real estate investment and development in the Kingdom of Saudi Arabia.

2.1.5 Al-Arkan Sukuk Company

Al-Arkan Sukuk Company is a limited liability Company, a wholly owned subsidiary of Dar Al-Arkan Real Estate Development Company with a capital of SR 500,000 fully paid up, registered in Riyadh under the Commercial Registration No: 1010274407, dated 11/10/1430 H

(corresponding to 01/10/2009). The Company operates in development, maintenance and management of real estate as well as land procurement and general contracting in the Kingdom of Saudi Arabia.

2.1.6 Thawabit Investment Company

Thawabit Investment Company is a limited liability Company, a wholly owned subsidiary of Dar Al-Arkan Real Estate Development Company with a capital of SR 500,000 fully paid up, registered in Riyadh under the Commercial Registration No: 1010275449, dated 30/10/1430 H (corresponding to 19/10/2009). The Company operates in real estate investment and development in the Kingdom of Saudi Arabia.

2.1.7 Dar Sukuk International Company

Dar Sukuk International Company is a limited liability Company, a wholly owned subsidiary of Dar Al-Arkan Real Estate Development Company with a capital of SR 500,000 fully paid up, registered in Riyadh under the Commercial Registration No: 1010275448, dated 30/10/1430 H (corresponding to 19/10/2009). The Company operates in real estate investment and development in the Kingdom of Saudi Arabia.

2.1.8 Investments in Subsidiary Companies as Defined by the Rules of the Capital Market Authority ("CMA")

2.1.8.1 Khozam Real Estate Development Company

Khozam Real Estate Development Company ("Khozam") is established as a limited liability company between Jeddah Development and Urban Regeneration Company (49%), a Company wholly-owned by Jeddah Municipality, and Dar Al-Arkan (51%). Khozam is registered in Jeddah under Commercial Registration No. 4030193909 dated 25/10/1430H, (corresponding to 14/10/2009). Khozam's capital amounts to SR 540 million and operates in the Kingdom of Saudi Arabia with headquarters based in Jeddah and undertakes real estate development (development of Qasr Khozam Project).

2.1.8.2 Alkhair Capital

The Company owns a stake of 34% of Alkhair Capital Saudi Arabia ("Alkhair"). Alkhair is licensed by Saudi Arabia's Capital Market Authority to deal as principal and agent (except for the implementation of marginal deals) undertaking underwriting, management, arrangement and financial advisory services. Alkhair Capital is a closed Joint Stock Company with capital of SR 300 million, registered in Riyadh under commercial registration No. 1010264915 dated 27/3/1430H (corresponding to 24/03/2009). Alkhair's headquarters are based in Riyadh city and it operates in the Kingdom of Saudi Arabia.

3 Description of Company's Activities and Contribution to Revenues

All of the Company's operations are carried out within the Kingdom of Saudi Arabia. DAAR operates as three distinct divisions, as follows:

3.1 Real Estate Development

The revenue of this division is derived from the sale of land and developed residential and commercial properties to individuals, corporates, investors and developers. During the fiscal year 2013 this division accounted for SR 2,822 million, representing 96.28% of the Company's total revenues, as compared to SR 3,504 million, or 98.5% in 2012.

3.2 Property Management and Leasing

Property Management and Leasing is DAAR's second largest and fastest growing division. Revenues are derived from rental income from residential and commercial investment properties as well as income earned from the management, operation and maintenance of residential and commercial buildings and public facilities. In 2013, revenues generated in Property Management and Leasing amounted to SR 108 million and represented 3.68% of Group revenues, compared to SR 53 million or 1.5% of total revenues in 2012.

3.3 Investment Activities

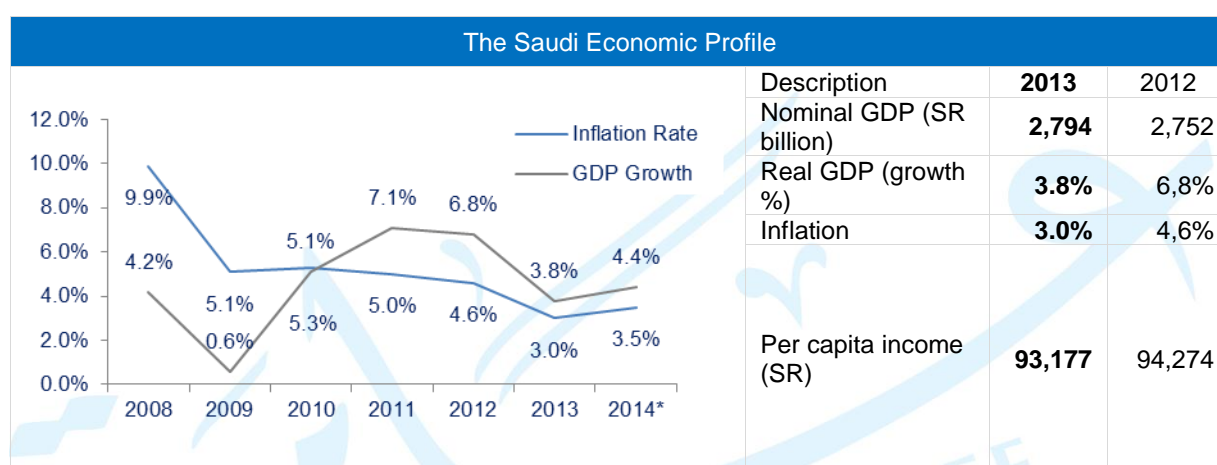
Revenues from investment activities represent income generated by strategic investment in companies, which the Company's management believes is complementary to Dar Al-Arkan's real estate development activities. During 2013, such investment activities were not significant to the Company's net profits as their contribution to the profit and loss accounted for less than 1% of DAAR's net profit.

Moreover, the Company earned other non-operating revenues amounting to SR 39 million representing 5.8% of net income in 2013 compared to SR 93 million (9.4% of net income) in 2012 resulting from profits from Islamic deposits.

4 Saudi Real Estate Sector Overview

4.1 The Saudi Economy

The Saudi economy is the largest in the MENA region and favourably positioned among the top 20 in the world. The economy is growing at a fast pace thanks to strong earnings from oil production, as well as thriving non-oil sectors, on which government spending is focused. Estimated 2014 government spending of SR 855 billion demonstrates continued support for the economy for six consecutive years. Government spending continues to centre on developing projects in education, health and housing sectors as well as security, social and municipal services, water and sewage, roads and technology, support of scientific research and fostering investment opportunities. The expansionary fiscal policies of the Kingdom are expected to support a prosperous national economy in the coming years, visible in all economic sectors.



Source: Saudi Arabian Monetary Agency (SAMA), * IMF projections.

4.2 Current Position of the Saudi Real Estate Market

The Saudi real estate market is driven by a thriving economy, an increasingly growing population, urbanisation, and a young demographic structure where about 50% of the population are below twenty years of age. According to estimates from the Ministry of Economy and Planning, demand for dwellings is around 1.25 million units during the ninth development plan (2010-2014). Land required for building these units is estimated at 350 million square metres, with demand expected to rise to 4 million housing units by 2024. Despite on-going attempts by the Saudi government to support the building of housing units through the Real Estate Development Fund (REDF) and other Ministry of Housing programmes for the construction of housing units on top of the housing units offered by the private sector, studies show that the market is still unable to supply the large number of housing units in demand. This acute shortage of supply has driven a continued rise in property prices. Market research indicates that the rate of price increases in land and housing in 2013 ranged between 3% and 6% in different regions of the Kingdom.

Growing demand for houses is undoubtedly an attractive investment prospect, but also represents a big challenge requiring cooperation between all parties to satisfy demand. The shortage of housing has coincided with a period of economic boom. The government is therefore devising a housing strategy which is expected to create lucrative investment opportunities in the Saudi real estate sector.

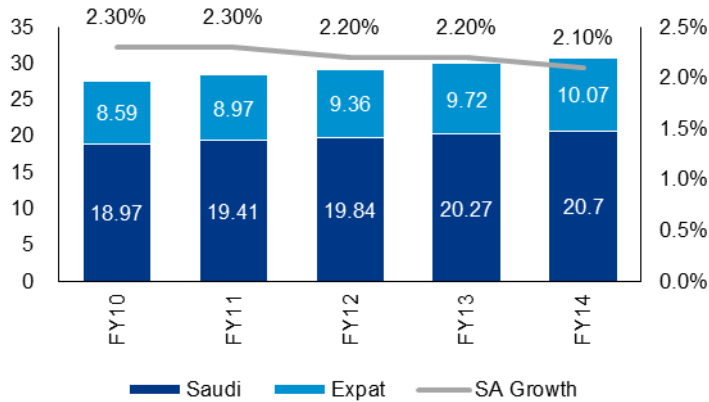
At the forefront of these strategies are the following main factors:

Firstly, the Custodian of the Two Holy Mosques King Abdullah bin Abdulaziz has established the Ministry of Housing and allocated SR 250 billion of the 2011 budget surplus to building 500,000 housing units, with the Ministry responsible for development and distribution. In addition, the Custodian of the Two Holy Mosques approved the “land and loan” scheme in 2013 as a new initiative to support housing. As part of its plans to expand home ownership rates among Saudis, the Ministry also announced ambitious plans for significant development projects of around 295,000 housing units. In 2014 the Council of Ministers approved the housing support scheme which will set out the mechanism for distributing the housing projects backed by the Ministry of Housing; regulations for the implementation of this law are expected to be issued soon. Furthermore, in the context of cooperation between the public and private sectors to meet the strong demand for houses, the Ministry of Housing is seeking to establish a constructive strategy and partnership with real estate developers to build significant real estate projects, especially in big urban centres which are estimated to account for around 70% of overall demand.

Secondly, the Real Estate Development Fund (REDF) granted interest-free loans to promote ownership and construction of housing units for the third consecutive year. In 2013, 52,689 loan applications were approved, totalling SR 26.3 billion for the construction of 63,219 housing units. The REDF in its continuous efforts to regulate lending has instigated new procedures to allow individuals to apply for loans to help fund the purchase of ready-built units without them being required to own land, which used to be a pre-requisite. The REDF is also working to improve and increase lending opportunities from other sources such as commercial banks, and to develop new means of guarantee. The REDF has embarked upon applying the additional fund programme through some commercial banks, enabling loan applicants to receive additional loans. All these initiatives aim to create funding solutions to boost housing investment.

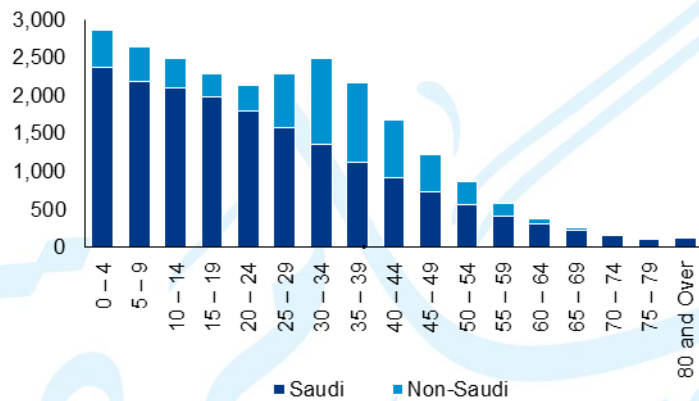
Thirdly, developing the real estate legislative environment will provide an appropriate mechanism to encourage investment in the real estate industry. The approval of the mortgage system in mid-2012 is considered to be one of the most significant structural and legislative reforms, bringing about a quantum leap in the Saudi real estate legislative environment. In 2013, the Saudi Arabian Monetary Agency (SAMA) issued regulations for three of the five mortgage laws, which are the Real Estate Financing Law, the Financial Lease Law, and the Supervision of Finance Companies Law. With positive steps towards the application of these regulations, by the end of 2013, SAMA had awarded six licences to Saudi banks and financing companies to practice real estate financing according to the new regulations. A further 9 applications are in advanced approval stages. The creation and implementation of these mortgage laws will be commented upon later in this report.

4.3 Saudi Real Estate Market Demographic



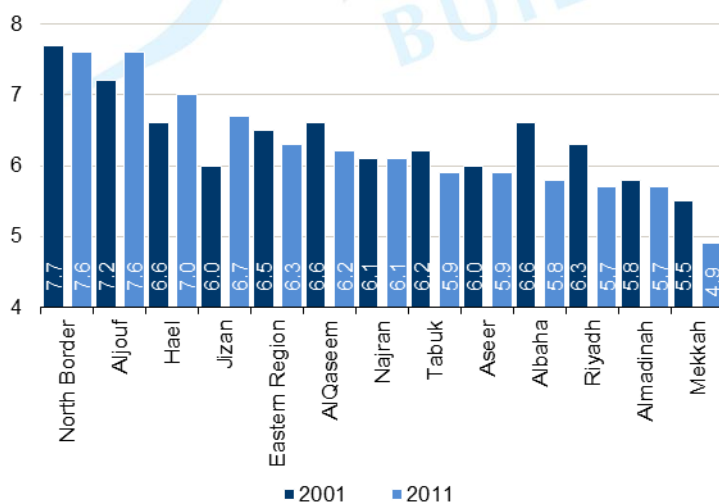
4.4 Saudi Population Growth

The Kingdom is experiencing robust growth driven by the indigenous Saudi population. The Ministry of Economy and Planning estimates the population will reach 37.6m by 2025



4.4.1 Young Population

- 69% of the population are under the age of 35
- 41% of the population are under the age of 15
- Median age is 17.3 years



4.4.2 Declining Household Size

- Smaller households in the largest provinces, reflecting economic and social development
- Average household size declined from 6.1 people in 1992 to 5.8 in 2011. Current forecasts expect a drop to 4.9 by 2020
- Family structure in Saudi Arabia is changing

4.5 The Enforcement of Mortgage Legislation and its Anticipated Impact

A significant development occurred in the real estate market in 2012 with enactment of five mortgage laws consisting of: (1) the Real Estate Financing Law, (2) the Supervision of Finance Companies Law, (3) the Financial Leasing Law, (4) the Registered Real Estate Mortgage Law, and (5) the Execution Law. During 2013, SAMA published regulations for the implementation of the first three laws. The regulations in respect of The Execution Law and the Registered Real Estate Mortgage Laws have yet to be published. By the end of 2013, SAMA started the application of the new laws and had awarded six licences to Saudi banks and financing companies to practice real estate financing according to the new regulations. A further 9 applications are in advanced approval stages.

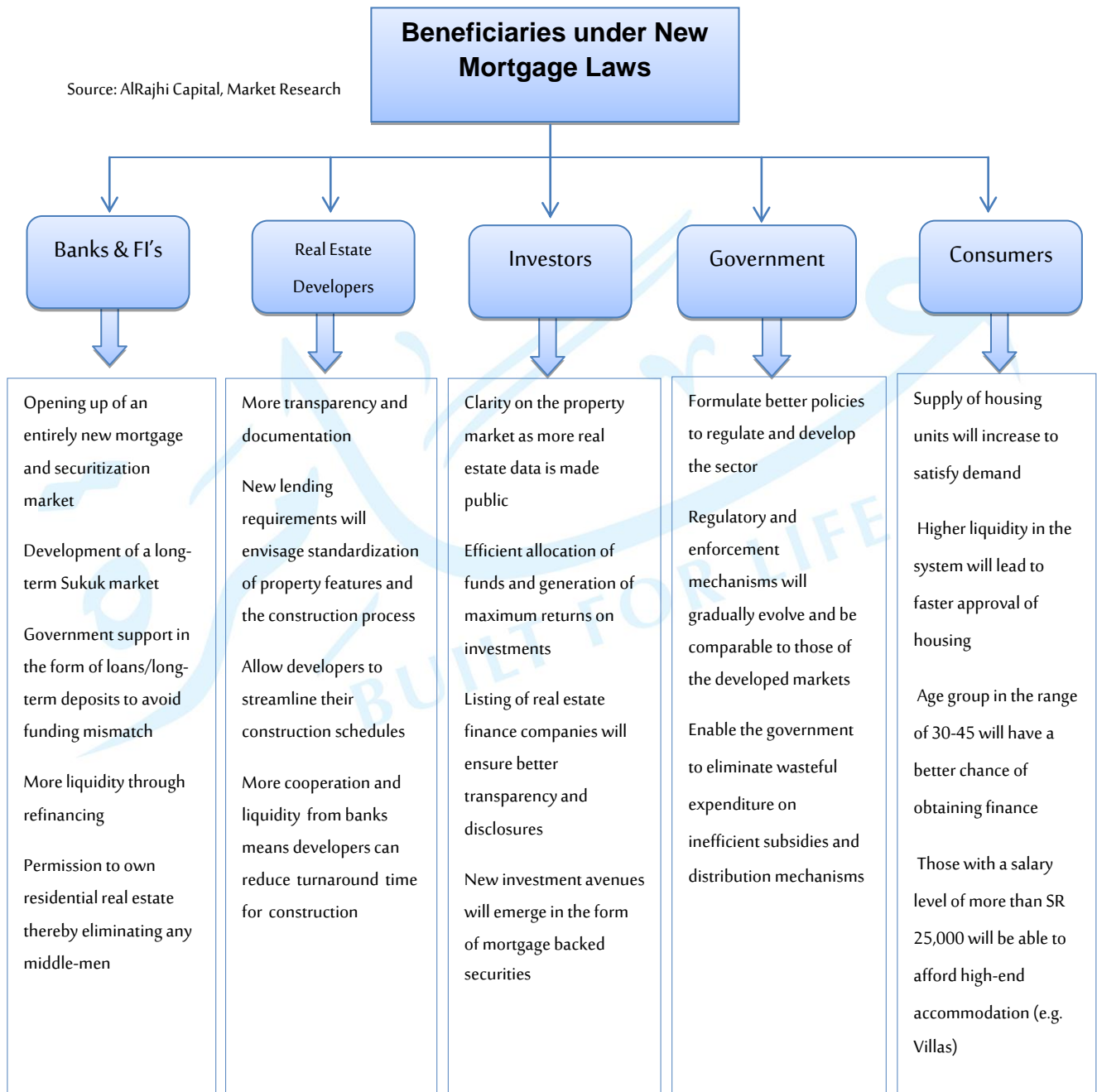
The new mortgage system is expected to bring about a significant improvement in the real estate sector by helping to balance the supply and demand of housing by promoting competition for the benefit of consumers. These changes are also likely to attract more investment to real estate development. Success in mortgage lending depends on the availability of considerable liquidity in the market together with well monitored, controlled and effective implementation. Research indicates that the mortgage law has the potential to create a mortgage industry equivalent to an annual estimated value of SR 120 billion (USD 32 billion) over the next ten years. This increased liquidity in the market will improve mortgage financing, increasing the availability of home loans and ultimately home ownership.

The Mortgage Law will stimulate the real estate market in general, both through the purchase of developed land or of existing housing units, and through helping numerous potential buyers to own their houses through domestic lending with the added benefit of their rights being protected. If the financial institutions, such as banks, participate in mortgages, the impact of the mortgage law will extend to the broader economy in terms of increasing the revenues of both real estate owners and banks as a result of increased rates of credit sales.

In addition, the Mortgage Law will create considerable inflows of finance to the mortgage sector, which will benefit the Sukuk market. Estimates from the Ernst and Young Global Islamic Banking Excellence Centre expect that global demand for Sukuk will triple by 2017. This boom in demand is mainly attributable to steady growth in the Islamic banking services sector resulting from increasing demand for reliable Islamic Sharia-compliant securities from Islamic financial institutions, fund managers and high net worth individuals. The traditional institutions are also considered key investors of Sukuk products.

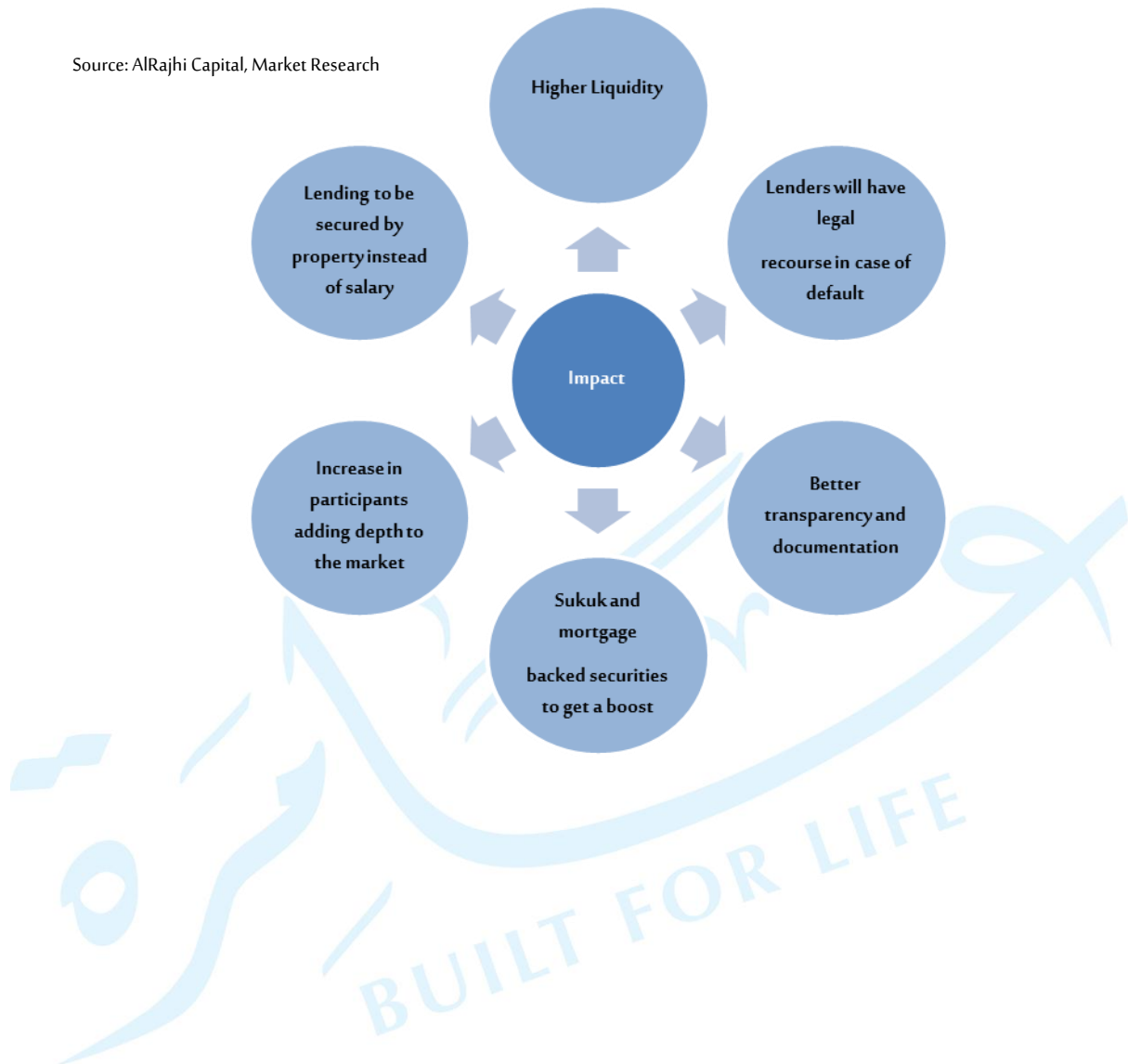
According to the National commercial bank estimates, the volume of investment in the housing sector between 2011 and 2020 is anticipated to be SR 1.3 trillion (equivalent to US\$345 billion), used in the construction of 2.4 million housing units. This implies numerous opportunities will be available to developers and investors and the volume of expenditure to be undertaken by the government and the private sector to bridge the demand-supply gap. Enactment of the mortgage law, under the prevailing situation of the accelerating growth rate of demand in the housing market, will help the concept of investing in real estate in a way that responds to the requirements of modern life as well as taking into consideration the variables that may occur in future.

The factors mentioned above will help the sector to see investment in economies of scale and intensive production by utilizing funding flow, from both internal and external sources into the real estate sector. The mentioned factors will also attract foreign investment as well as state support in terms of genuine partnership between financiers, developers and state institutions in order to implement large and integrated real estate projects. Such real estate projects will produce real estate assets characterized by multiple socio-economic and environmental benefits that enhance the sector's ability to meet market needs and stabilise demand and supply forces.



Likely impact of the new mortgage laws

Source: AlRajhi Capital, Market Research



5 Company's Business Model

The Company pursues a flexible business model aimed at maximizing the growth of the Company's assets and profits. Therefore, the Company invests sizeable capital in any project which proves to be financially viable and technically feasible, to maximize value. To this end, the Company focuses on purchasing undeveloped land in big urban centres, where purchasing power is higher, and achieving an increase of value at each development stage. The development process goes through a series of well-defined steps which ensures the maximization of value-added at each stage as follows:

| Development stage | | Input | output |
|-------------------|-------------------------------|---|--|
| 1 | Sourcing land | <ul style="list-style-type: none"> - Criteria of land selection and investigating legal ownership of land; - Purchasing of land; - Investment in land; - Land investment proposal with feasibility study | A legally owned asset with development potential through a feasibility investment proposal |
| 2 | Project planning | <ul style="list-style-type: none"> - Organisation of the project; - Setting out the strategy and procedures of project implementation; - Establishing the strategy and procedures of project management; - Allocation of resources. | An integrated project structure underlying allocation of resources and an effective plan of action |
| 3 | Site development | <ul style="list-style-type: none"> - Designing and planning; - Obtaining the required permissions; - Earth work and landscaping; - Excavations and backfilling; - Land phasing. | Semi-developed land plots |
| 4 | Development of Infrastructure | <ul style="list-style-type: none"> - Materials and technology; - Road and sidewalk pavement; - Plantation; - Setting of different service networks. | Fully developed lots |
| 5 | Development of superstructure | <ul style="list-style-type: none"> - Designing; - Construction plan; | Semi-finished residential unit |

| | | | |
|---|--------------------------|--|--|
| | | <ul style="list-style-type: none"> - Materials and technology; - Commissioning and correction of potential defects. | |
| 6 | Finishing and decoration | <ul style="list-style-type: none"> - Shaping and covering of housing and residential utilities; - Ceramic, mechanical and electrical works; - Woodwork; - Plaster and painting work; - Internal and external decoration work. | Completed residential unit ready for sale or lease |
| 7 | After-sales services | <ul style="list-style-type: none"> - One-year free maintenance - Ten-year construction warranty - Providing customers with plans of the residential units specifying all building components to facilitate preventive and corrective maintenance when required - Carrying out periodical field surveys to ensure customer satisfaction | Residential unit with guaranteed quality |

The Company employs different strategies depending on the project and is subject to market conditions and investment viability which in turn depends on socio-economic, commercial and financial factors. The Company's focus is to enhance its revenues through three business streams which are: the development and sale of land, the development and sale of residential and commercial units and establishment of investment properties for leasing. The Company's vision is to be the leading provider of real estate solutions by demonstrating the ability to pursue different approaches for different projects. In some projects it develops land and constructs a small number of houses and sells them to individuals. Alternatively it sells developed or semi-developed land to companies, investors and small developers, leading to complete development of a project, as well as growing other real estate investments alongside the project. Similarly, the Company may pursue comprehensive urban development and then sell housing units to individuals retaining some residential and commercial properties in its investment portfolio for leasing purposes.

In conclusion, the Company's competitive advantage is centred on large master planned communities where value is created through phases of horizontal and vertical development as follows:

Horizontal Development

Infrastructure Development

- Targeting desirable projects or controlling land through management agreements;
- Preparing development plans using precise, bespoke designs and obtaining regulatory approval as necessary;
- Building key infrastructure;
- Seeking strategic alliances with third party developers that will collaborate to maximise value;
- Selling land to third party developers, investors and consumers.

Vertical Development

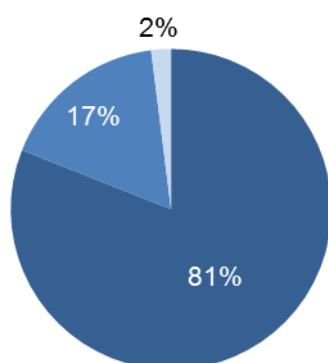
Superstructure/Building Development

- Developing and building anchor projects that not only bring in direct revenue, but also have the greatest impact on the value of the surrounding community;
- Anchor projects directly developed by DAAR may be a) “for sale” projects that help inject cash used to minimize exposure (residential units) or b) operating assets (commercial and for-lease residential areas) that once completed are transferred to the Leasing division for commercial operation.

6 The Strategy

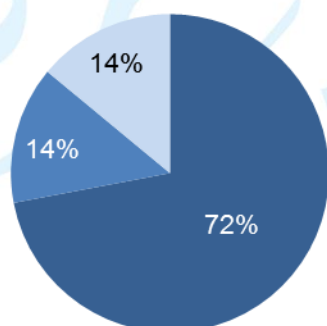
Diversification Strategy

2007 – Asset mix



- Land development
- Residential & commercial developments
- Property management & leasing

2013 – Asset mix



- Land development
- Residential & commercial developments
- Property management & leasing

Dar Al-Arkan remains true to its strategic focus of developing master planned communities; homes, shopping and business centers for the fast growing Saudi Arabian middle-income consumer segment. Focusing on our core competence in developing master planned communities has enabled us to build a successful business with excellent operational performance, a strong financial position and a well-recognized reputation in the Saudi market.

Development of large scale master-planned communities creates growth opportunities for our three business streams namely the sale of land and residential projects, property management and leasing and investment in real estate related businesses.

Our goal is to reduce risk and volatility, improve profitability and earnings quality by continuing to diversify sources of revenue. We will generate income from our business streams by reducing the share of land development, significantly increase investment towards recurring income assets while capitalizing on the opportunity to build more residential and commercial units from the Company's development plans.

Residential and Commercial Development is the Corner Stone of our Growth

Projects under development

4.1 Million SQM



Our aim is to leverage development opportunities created from our master-planned communities and to build the highest quality residential and commercial assets for sale.

Our target is also to increase the number of units for sale or for lease from our current master-planned developments in Shams ArRiyadh and Shams Alarous and open new development projects in the short term from current land assets we own or from new opportunities.

Continuing to Grow Recurring Income Assets

500,000 SQM

Commercial and residential leasable space

SR 2.7 BILLION

Profitable investment lease asset portfolio

We have set a goal to significantly grow our lease asset base in the medium term to reduce income volatility and improve profitability.

Our current managed lease portfolio stands at SR 2.7 billion and includes one of the largest malls in Riyadh and residential and commercial assets in Riyadh and Mecca. We will continue to leverage our core master-planned communities to develop residential and commercial leased assets from Shams Alarous and a residential compound in Shams ArRiyadh.

We will also actively seek to add to our asset portfolio of residential or commercial lease assets that meet our investment criteria.

Strategic Real Estate Investments Supporting our Business Model

SR 747 million

Strategic investments



الخير كابيتال

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

Access to International, Regional and Local Sources of Funding

SR 11.3 billion successful international/local Sukuk issuances

15% net debt to asset

Moderately leveraged

The Company has successfully diversified its sources of funding to support its business model. DAAR will continue to pursue further diversification to support strategic changes in our business. Going forward, project and lease asset based funding will grow proportionally with our revenue diversification strategy resulting in longer loan maturities and lower cost of funding .

DAAR's relationship with the International Sukuk market goes back to 2007 and is fully committed to maintain this relationship going forward. This includes diversifying into other local Sukuk markets.

DAAR is moderately leveraged compared to other real estate companies in the region and internationally. It plans to remain conservative and stay at current ratio levels.

Currently DAAR enjoys a B+ rating from S&P with a Positive outlook. Management is committed to maintaining the relationship and takes every possible step to convert the Positive outlook into an upgrade.

The Company also enjoys an AA3/P1 credit rating and a stable outlook from the Malaysian credit rating agency, RAM.

7 Residential and Commercial Development

7.1 Award of "Best Real Estate Developer in the Kingdom of Saudi Arabia" by Euromoney

Euromoney's 8th Annual Global Real Estate Survey named Dar Al-Arkan "Best Residential Real Estate Developer in the Kingdom of Saudi Arabia". According to the survey, Dar Al-Arkan showed remarkable competitive distinction thanks to its inherent strengths and high growth potential which enabled it to supply local communities with developed housing and real estate projects that meet the increasing demand for housing units for a fast growing, young population.



7.2 Award of First Rank in the Saudi Real Estate Development Sector by Forbes

Dar Al-Arkan Real Estate Development Company is selected as the number one Saudi real estate company on Forbes' list of the 500 most powerful companies in the Arab World ("Forbes Middle East list"). Forbes' rankings follow an in-depth study of 700 Arab companies which are listed on the stock exchanges of 10 Arab countries.



7.3 Shams ArRiyadh Project

Located in the north-west of Riyadh, in the Al-Dariyia district, the Company is developing the Shams ArRiyadh project, DAAR's second Master-Planned Community project. Shams Ar-Riyadh is one of the largest residential development projects ever initiated in the Kingdom by size, comprising a total area of approximately five million square metres. Shams Ar-Riyadh targets the middle to upper bracket of the middle-income market segment. The project's notable features

include higher land which gives charming views over the natural valley of Wadi Hanifa, with wide roads and pedestrian sidewalks. There is space designated for different sporting, social and cultural activities, and other public amenities and facilities. The project will be equipped with a multi service digital structure making it a 'smart' residential community.

By the end of 2013, the project's infrastructure was approximately 47% complete. The finished infrastructure works include grading works, development of the project's frontage and entrance, and construction of a bridge passing over the natural valley linking commercial and residential areas. The construction of two electrical power substations (No.'s 8105 and 8107) have been completed and handed over to the Saudi Electricity Company. In addition high voltage 132 Kv electricity cables have been installed. In respect of the water services, the Company has delivered the project's water requirements to the National Water Company, which started during 2011 by extending main water pipes and constructing the main water reservoir for the area.

During 2012 and 2013 about 2.6 million square metres of project land area was sold to Saudi Basic Industries Corporation (SABIC) and other customers. After the sale to SABIC, the project master plan was altered and is awaiting final approval by the relevant authorities, which is expected during the first quarter of 2014. Changes to the master plan include: redistribution of the licensed built up area and building a gated residential complex accommodating 1,110 residential units to be added to the Company's leasing portfolio. Furthermore, detailed market studies for the gated complex have been completed and tendering for design works is underway. Bids have also been invited for redesigning the infrastructure in light of the latest changes made to the master plan and another tender for the asphaltting of the project's main roads. The details of the project are as follows:

| Shams Al-Riyadh by Numbers* | |
|--|-------------------|
| Detail | Number |
| Total project's remaining area | 2.4 million (sqm) |
| No of Residential units to be leased | 1,110 unit |
| No of Residential units to be sold | 250 unit |
| Commercial land to be sold | 489,000 (sqm) |
| Percentage of completed Infrastructure * | 47% |

*Based on current development plan.

7.4 Shams Alarous Project

Shams Alarous is the Company's third Master-Planned Community project and is located approximately 12 kilometres east of downtown Jeddah on the extension of Palestine Road, one of the main roads in Jeddah, covering an area of approximately three million square metres of fully developed land. The project was linked with Palestine road, a prominent commercial street in Jeddah, with a 52 metre wide and four km long road with five lanes in each direction, three main lanes and two service lanes. The road extension was inaugurated in 2011. Connecting the project to Palestine Road led to subsequent growth in the project area, and has consequently led

to significant value appreciation for the project land. In addition the 100% increase of floor to area ratio further supported the demand for real estate in the area.

The Company has embarked on the maintenance and improvement of the project's infrastructure including repairing internal roads and sidewalks, integrating and maintaining the electrical cable network for lighting the main road, electricity connections, and completing the design for two mosques which are scheduled be built in 2014.

In 2012 and 2013, the Company sold some developed residential plots in the project. The details of the project are as follows:

| Shams Alarous by Numbers* | |
|--|-------------------|
| Detail | Number |
| Total project's net remaining Area | 1.3 million (sqm) |
| Residential area to be sold | 1.1 million (sqm) |
| No of Residential units to be leased | 3,304 unit |
| Commercial space to be leased | 190,000 (sqm) |
| Percentage of completed Infrastructure | 100% |

7.5 Al Tilal Project

The project is located in south west Medina, on Prince Sultan road, one of the main pivotal roads in Medina, within Alharam zone boundaries, 9 km from the Prophet's Holy Mosque and 8 km from Quba Mosque. The project started with the development of a total land area of 2.2 million square metres into developed plots. In addition, 499 villas were built that have subsequently been sold along with other developed land plots. The Company plans to build a commercial centre with a leasing area of 4,000 sqm, to be retained as a lease asset. Design work of the commercial centre is underway and construction is scheduled to start in 2014. Below are details of the project in figures:

| Al-Tilal by Numbers* | |
|--|-------------------|
| Detail | Number |
| Total project's net remaining area (sqm) | 0.5 million (sqm) |
| Residential area to be sold (sqm) | 457,000 (sqm) |
| Commercial space to be leased (sqm) | 4,000 (sqm) |
| Percentage of completed Infrastructure | 100% |

7.6 Qasr Khozam Region Development Project

Khozam Real Estate Development Company "Khozam" was established following an offering that targeted private real estate development companies. Supported by its technical expertise and proven track record, Dar Al-Arkan was selected as development partner from among 37 competing companies in April 2008. Khozam Real-Estate Development Company was established as a limited liability company headquartered in Jeddah and was registered under Commercial Registration No. 4030193909 dated 14/10/2009. Khozam's capital amounts to SR 540 million, of which Jeddah Development and Urban Regeneration Company owns 49% contributed by the provision of 252,040.45 sqm land, valued at SR 264.7 million, while Dar Al-Arkan owns the remaining (51%), with a cash contribution amounting to SR 275.5 million.

The main purpose of the Company is to develop the Qasr Khozam area and surrounding neighbourhoods and is seen as the largest project for treating and developing slum areas in Jeddah. The initiative enjoyed generous patronage from the Custodian of the Two Holy Mosques King Abdullah bin Abdulaziz, who laid the foundation stone for this ambitious development project.

The project was able to accomplish several goals, particularly:

1. Prepare a master plan for the project, which was approved by the Ministry of Municipal and Rural Affairs by Resolution No. 13069 issued on 13/08/2010. The plan was adopted by His Excellency the Mayor of Jeddah, who issued for this purpose the accredited regulatory scheme No. 15 /M/T/U. The technical expertise of Dar Al-Arkan was best demonstrated through the development of the main plan, which earned the Mecca Award of Urban Excellence.
2. Completed the preparation of all documentation for properties to be seized.
3. Completed the evaluation of properties to be seized and obtained the approval of relevant authorities for evaluation statements.
4. Completed a social and economic survey by a specialist company targeting the owners of the properties located in the project area in order to determine the social and economic characteristics of the local population and set a comprehensive study to deal with their relocation mechanism.
5. Carried out technical studies to determine infrastructure needs of the entire project, including roads, electricity, water supply, sanitation, storm water drainage, irrigation, and communication networks.

With respect to the first phase: Eviction, demolition and removal works were completed; measurement and parcelling (Thar'a) decisions were also completed pending the approval of relevant authorities to complete procedures in preparation of an offering to investors.

With respect to the second phase: Completed works include a cadastral survey (a comprehensive land and property survey) and valuation, pursuant to approval of relevant authorities to give evacuation notification to property owners and start demolition works.

8 Property Management and Leasing

8.1 Overview

Dar Al-Arkan continued making progress with its strategy to grow recurring income assets. By the end of 2013, the value of these leasing assets represented 14% of total assets. We are expecting revenue from leased assets to grow rapidly, as the Company acquires and builds more investment properties. The asset management service is being developed further in line with international best practice and the standards and guidelines of leading property management associations such as BOMA (Building Owners and Managers Association), RICS (Royal Institution of Chartered Surveyors) and IFMA (International Facilities Management Association).

The quality of the asset management service is managed through the Company's IT platforms; where DAAR's investment in Oracle e-Business suite provides the asset management service with best practice processes and controls for customer relationship management, service management, financial management and asset lifecycle management.

8.2 Key Events in Property Management and Leasing in 2013

8.2.1 Al Qasr Mall Inaugurated by Prince of Riyadh

Al Qasr Mall was officially inaugurated under the patronage of His Royal Highness Prince Khalid Bin Bandar bin Abdul Aziz Al Saud, Governor of Riyadh Region in June 2013. A number of officials, business people, and visitors also attended the event.



The Governor of Riyadh region cut the ribbon to mark the official opening of "Al Qasr Mall". Following this, His Highness toured the mall and visited some tenants. To conclude the tour, the Chairman of the Board of Directors of Dar Al-Arkan gave a detailed presentation of the mall and presented a memorable trophy to His Highness honouring his visit on this occasion.

8.2.2 Award for Commercial Project of 2013 by Arabian Business

Al Qasr Mall project also won the “Commercial Project of the Year” award in 2013, in the annual celebration of “Arabian business achievement awards KSA 2013” held by Arabian Business magazine.



Commercial Project of the Year
 Al Qasr Mall

The award was given to the Company in a celebration held at Alfaisaliah Hotel in Riyadh. Mr. Yousef Al Shalash, Chairman of Dar Al-Arkan received the award and expressed his gratitude and pride on behalf of everyone from DAAR involved in the project. This award is one of a series of accolades won by the Company and stands in recognition of the Company’s successful performance in developing distinguished projects in 2013.

8.3 Growing the Leased Area Under Management

Assets owned by the Company totalled over 430K sqm. Below is a brief description of the leasing portfolio by region as at the end of 2013:

| Region | Leasable Area (sqm) | | Occupancy |
|---------|---------------------|---------|-----------|
| Riyadh | Residential | 233,957 | 53% |
| | Commercial | 134,314 | 71% |
| | Offices | 19,906 | 0% |
| Western | Residential | 38,475 | 100% |
| | Commercial | 4,818 | 100% |
| Total | | 431,470 | |

8.4 Description of the Leasing Asset Portfolio

8.4.1 Al Qasr Lease Asset

The award winning Al Qasr is the largest residential project in the Kingdom and was Dar Al-Arkan's first master-planned community. It is currently considered to be the leading model for modern development in Riyadh. Its modern, spacious urban design, incorporating parks, schools and government services has established Al Qasr as one of Riyadh's major new residential districts. The Al Qasr real-estate leasing portfolio includes 1,370 residential apartments, 91 villas, 348 shops and showrooms, and an office building comprising 65 offices. Its location in Al Suwaidi Quarter to the South of Riyadh city centre is proving a popular location for government agencies and corporations to accommodate their employees.

The Al Qasr community enjoys a unique market position by having such a large number of units for lease in the same location. This enabled the Al Qasr community to attract a high quality institutional tenant mix and long term contracts (between 3 to 5 years) with government agencies and private companies. This falls in line with the Company's strategy, which aims to use its regular cash flows from leasing as security for financing the expansion of its investments.

Examples of tenant mix include: the Ministry of Foreign Affairs, Military Hospital in Riyadh and Ritz-Carlton to accommodate their employees, as well as Boudl Furnished Apartments and Al Hamadi Hospital.

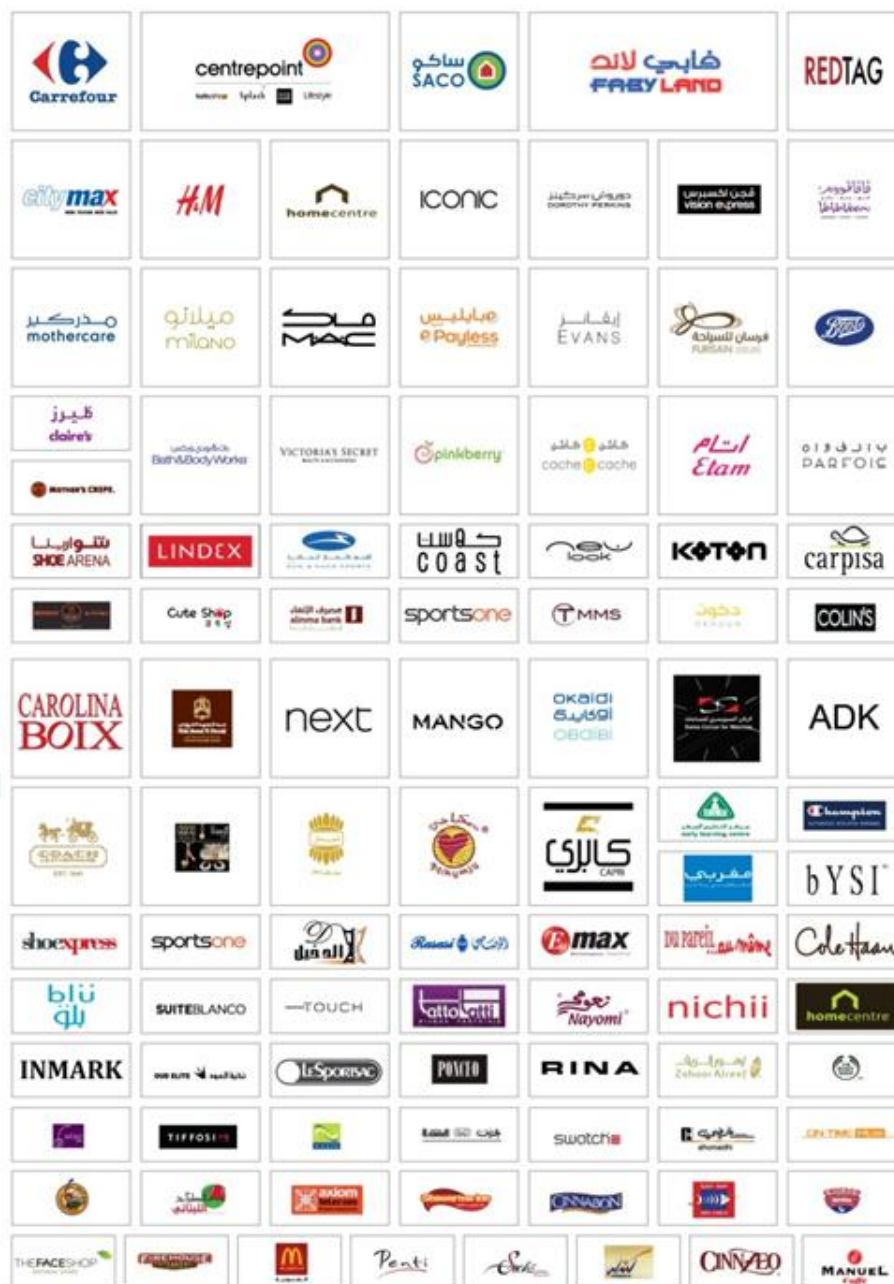


8.4.2 Al Qasr Mall

The Al Qasr Mall is one of Riyadh's largest malls. Since its formal opening in June 2013, the state-of-the-art mall has provided the residents of Riyadh particularly those in Central, Southern and Western Riyadh with a modern and convenient shopping destination, through more than 90,000 sqm of commercial and entertainment areas offering a wide range of quality stores and services.

The Mall totals 250,000 sqm (considered the largest for commercial mall purposes in Riyadh), comprising three floors dedicated to more than 350 shops, family entertainment facilities and restaurants, in addition to two floors used for parking, with total capacity for about 1,800 cars.

By the end of 2013, the mall was 87% leased with a tenant mix that includes famous brands such as: Carrefour, Al Othaim, Dar Al Bander Co./Land Mark Group (Centre Point, City Max, Iconic, Shoe Express, Carpisa, Bossini, New Look & Koton), Al Shaya (H&M, Peacock, Payless, Next, Vision Express, Pink Berry, Claire's, Castania Nuts, Mother Care, Boots, Dorothy-Parkins, Milano Evans, Victoria), Dana for Trading Co. (Mango, ADK, Blanco, Fridays Project), Anwal for Trading Co. (Cache cache, Etam & Etam Lingerie, Prafios & Marrow), Red Tag, and SACO.



8.4.3 Azizia Towers

The Al Azizia Towers development has a unique location on Prince Sultan Street in the Al Azizia district of Mecca, only 5.5 km from the Holy Mosque and 3 km from Mashaer Mina.

The development comprises 7 towers, including 3 front towers overlooking Prince Sultan Street with 86m frontage and each tower comprising 12 residential floors, and 4 rear towers of 11 residential floors, in addition to 5 service storeys including mezzanine, two parking floors and one service floor.

The Azizia Towers totals 76,486 sqm of built up area, of which 4,818 sqm is dedicated to commercial leasing, while net residential leasing area totals 38,475 sqm. By the end of 2013, 100% of the areas were leased.

8.4.4 Al Masif Villas

The Al Masif residential compound is located in the Al Masif neighborhood north of Riyadh city, overlooking Zuhair Ibn Abi Sulma Street from the northern ring road. The compound comprises 26 duplex villas inside a gated compound designed for housing. Villas are surrounded with green landscapes; children's play yards and parking spaces. Renovation works are nearing completion and it is expected to be fully leased in the first half of 2014.

9 The Financial Results

9.1 Assignment of the Scope of Work of the Suspended Auditor to the Other Designated Auditor by the General Assembly

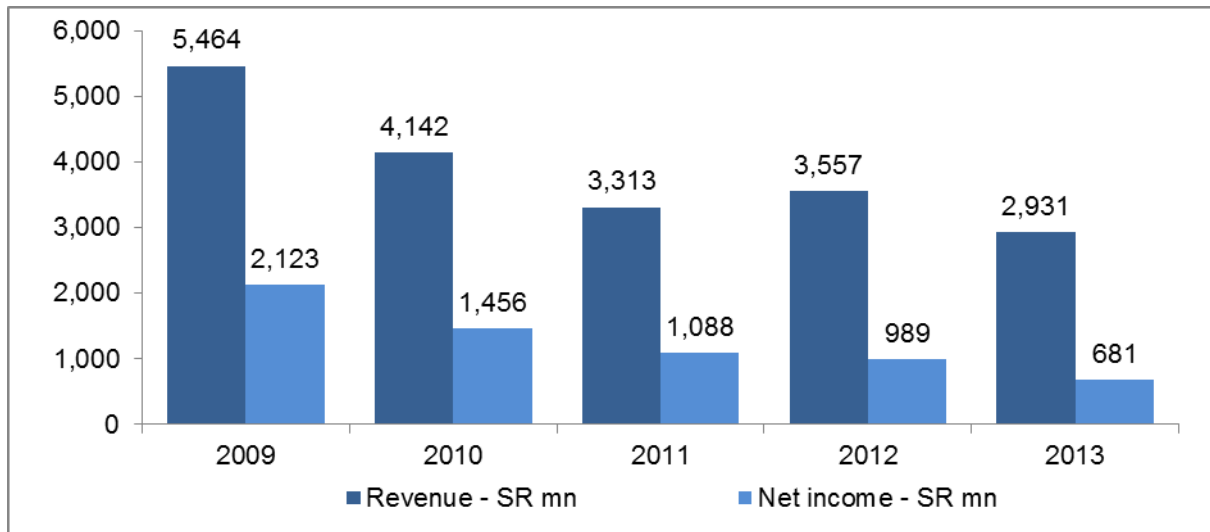
The Company received a letter from the Capital Market Authority No. 4/7134 dated 10/12/2013, with reference to a letter from the Saudi Organisation for Certified Public Accountants on the resolution reached by the Commission investigating violations to the provisions of the Chartered Accountants Regulation No. 74/433 dated 12/29/1433 AH, inflicting a suspension penalty on M/s Talal Abu-Ghazaleh & Co. Chartered Accountants. The chartered accountant suspended under the Resolution was not appointed as sole auditor of the Company's accounts, as was selected by the General Assembly to work jointly with M/s Bakr Abulkhair and their associates Deloitte & Touche to work as external auditors to the accounts for the fiscal year 2013. Due to the suspension and to ensure the timely issue of the Q4 2013 results, as well as the audited annual financial results, the Company assigned the scope of work of the suspended chartered accountants work to M/s Bakr Abulkhair and their associates Deloitte & Touche who audited the financial statements.

9.2 The Income Statement for the Fiscal Years 2009 to 2013

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

| Item (in SR '000s) | 2013 | 2012 | 2011 | 2010 | 2009 |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Operations' revenue | 2,931,168 | 3,557,072 | 3,312,510 | 4,141,981 | 5,464,053 |
| Cost of revenue | (1,778,097) | (2,163,366) | (1,943,497) | (2,377,724) | (2,956,916) |
| Gross profit | 1,153,071 | 1,393,706 | 1,369,013 | 1,764,257 | 2,507,137 |
| Principal activities expenses | (182,692) | (209,279) | (118,594) | (146,599) | (186,292) |
| Net income from principal activities | 970,379 | 1,184,427 | 1,250,419 | 1,617,658 | 2,320,845 |
| Financing expense | (313,959) | (264,086) | (212,809) | (214,311) | (146,230) |
| Net other Income | 42,570 | 93,626 | 99,699 | 79,364 | (1,936) |
| Net income before Zakat provisions | 698,990 | 1,013,967 | 1,137,309 | 1,482,711 | 2,172,679 |
| Zakat provisions | (17,528) | (25,430) | (49,374) | (27,000) | (50,000) |
| Net income | 681,462 | 988,537 | 1,087,935 | 1,455,711 | 2,122,679 |
| Earnings per share | 0.63 | 0.92 | 1.01 | 1.35 | 1.97 |

Total revenue and net income changes from 2009 to 2013



9.3 The Balance Sheet for the Fiscal Years 2009 to 2013

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

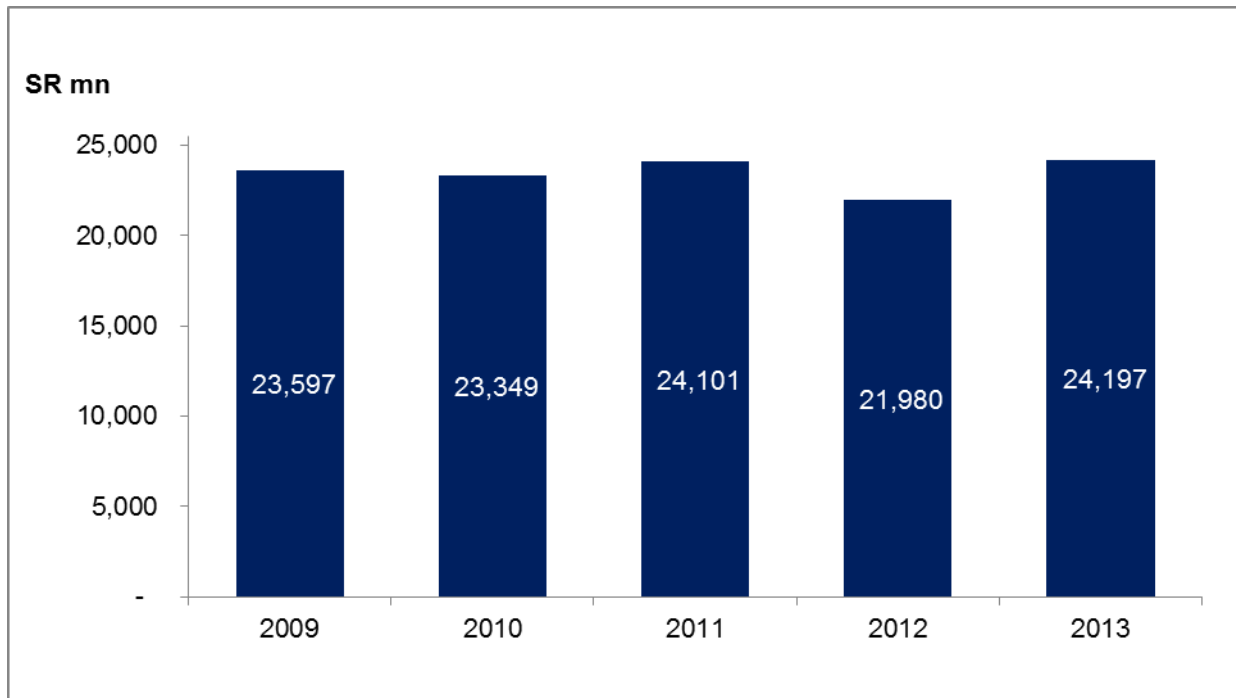
| Item (in SR '000s) | 2013 | 2012 | 2011 | 2010 | 2009 |
|--|------------|------------|------------|------------|------------|
| Assets | | | | | |
| Current Asset | 5,099,412 | 3,552,478 | 6,411,458 | 3,868,815 | 4,268,981 |
| Non-current Asset | 19,023,550 | 18,350,137 | 17,606,697 | 19,389,020 | 19,224,876 |
| Fixed Asset | 74,370 | 77,674 | 82,604 | 91,026 | 102,933 |
| Total Asset | 24,197,332 | 21,980,289 | 24,100,759 | 23,348,861 | 23,596,790 |
| Liabilities | | | | | |
| Current Liabilities | 2,027,894 | 2,362,996 | 5,741,282 | 2,157,558 | 3,806,093 |
| Non-Current Liabilities | 5,176,617 | 3,305,934 | 2,771,914 | 6,691,675 | 5,666,780 |
| Total Liabilities | 7,204,511 | 5,668,930 | 8,513,196 | 8,849,233 | 9,472,873 |
| Equity | | | | | |
| Capital | 10,800,000 | 10,800,000 | 10,800,000 | 10,800,000 | 10,800,000 |
| Statutory reserve | 884,914 | 816,768 | 716,768 | 607,768 | 462,268 |
| Retained earnings | 5,307,907 | 4,694,591 | 3,806,054 | 2,827,119 | 2,596,908 |
| Total shareholders' Equity* | 16,992,821 | 16,311,359 | 15,322,822 | 14,234,887 | 13,859,176 |
| Total Liabilities and Shareholders' Equity | 24,197,332 | 21,980,289 | 24,100,759 | 23,348,861 | 23,596,790 |
| Book value per share** | 15.73 | 15.10 | 14.19 | 13.18 | 12.83 |

Total shareholders' Equity for the years 2009, 2010, and 2011 excluded non-controlling interest from Dar Al-Arkan's subsidiaries of SR 265 million

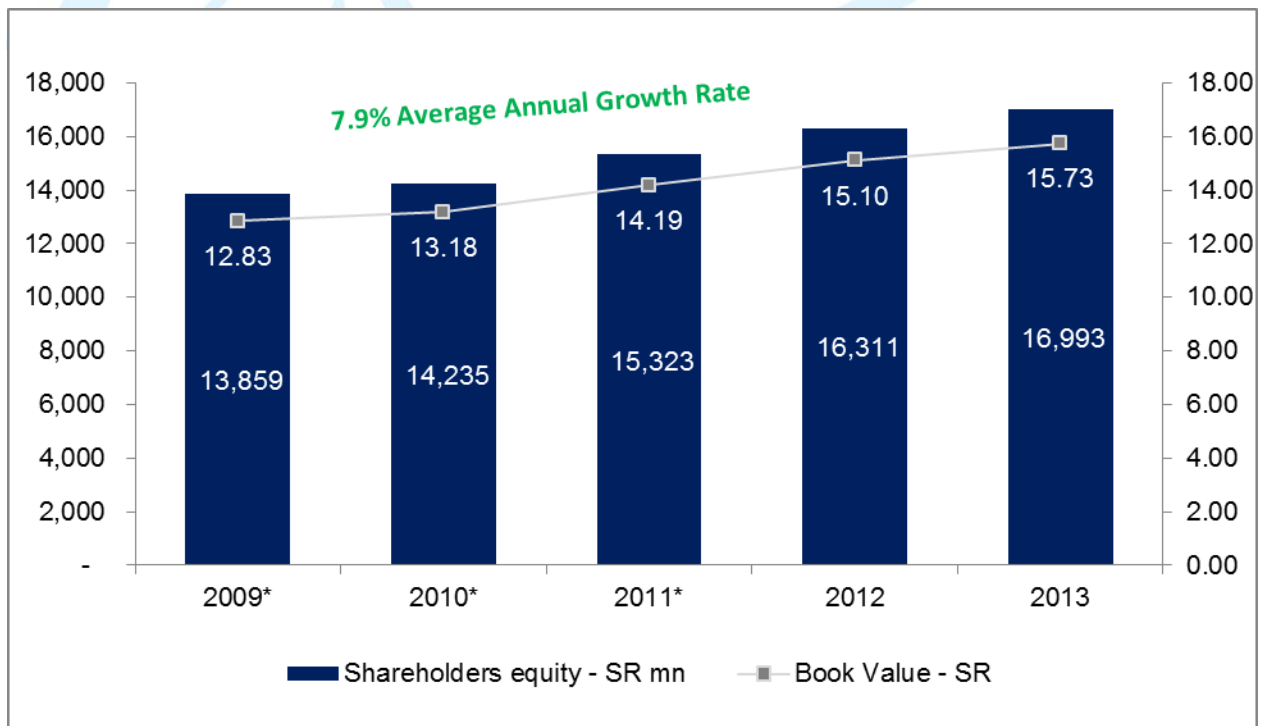
**Book value per share is calculated by dividing the total shareholders' equity by total number of outstanding shares at the end of each fiscal year.

The Company discloses that for commercial and practical reasons, it registers some of its real estate assets under the name of representatives or agents, in return for official documents against them evidencing the Company's ownership of these assets. This procedure is adopted by some local Saudi banks and companies. However the Company only undertook this course of action following legal consultation that assures the soundness of this practice, which preserves the Company's shareholders' rights.

Total assets from 2009 to 2013



Shareholders' equity and share book value changes from 2009 to 2013



* The years 2009, 2010, 2011 excluded non-controlling interest from Dar Al-Arkan's subsidiaries of SR 265 million

9.4 Results of Operations

The following table compares the results of operations for 2012 and 2013.

| Item (in SR '000s) | 2013 | 2012 | Change (+or -) | Change % |
|--------------------------------------|-----------|-----------|-------------------|----------|
| Revenues | 2,931,168 | 3,557,072 | -625,904 | -17.60% |
| Cost of revenues | 1,778,097 | 2,163,366 | -385,269 | -17.81% |
| Gross Profit | 1,153,071 | 1,393,706 | -240,635 | -17.27% |
| Principal activities expenses | 182,692 | 209,279 | -26,587 | -12.70% |
| Net income from principle activities | 970,379 | 1,184,427 | -214,048 | -18.07% |
| Financing charges | 313,959 | 264,086 | 49,873 | 18.89% |
| Net Income before Zakat provisions | 698,990 | 1,013,967 | -314,977 | -31.06% |
| Zakat provisions | 17,528 | 25,430 | -7,902 | -31.07% |
| Net Income | 681,462 | 988,537 | -307,075 | -31.06% |
| Earnings Per Share | 0.63 | 0.92 | -0.29 | -31.52% |

9.4.1 Revenues

Total revenues were SR 2,931 million in 2013, compared to SR 3,557 million in 2012, representing a decrease of 17.6%. The decrease is mainly due to the decrease in property sales as the Company was conservative in its property offering during 2013 due to its strong cash position. The increase in leasing revenues which generate high gross margins offset the decline in residential unit sales.

Rental revenues increased by 105% to reach SR 108 million during 2013 compared to SR 53 million in 2012 due to the growing occupancy ratios of the Company's residential and commercial properties assigned for lease in the Riyadh and Mecca regions.

Revenues from the sale of residential properties in 2013 were SR 0.5 million compared to SR 25 million in 2012, a 98% decrease. The revenue decrease is mainly due to the fewer number of units sold in 2013 primarily due to the low numbers of units available for sale in 2013.

Revenues from the sale of land were SR 2,822 million in 2013 compared to SR 3,479 million in 2012, representing a decrease of 18.9%. The decrease in land sales was mainly due to the Company being conservative in its land offering during 2013 due to its strong cash position. The total area of land sold during 2013 was 5.16 million square metres, a decrease of about 1 million square metres from 2012 level when 6.1 million square metres of land were sold.

The Company recognizes revenues from land sales upon signing of a contract and on receipt of at least 20% of the transaction value as a non-refundable advance payment. The remaining balance due is recorded in accounts receivable. Transfer of ownership to the buyer and registration of the land is finalized only after the full payment of the transaction value is received.

9.4.2 Cost of Revenue

Cost of revenue accounted for SR 1,778 million in 2013, representing 60.7% of total revenues compared to SR 2,163 million in 2012 or 60.8% of total revenues. This small decrease in the cost of revenue is mainly due to the higher gross profit generated by the rental revenue in 2013 compared to 2012.

9.4.3 Selling and General Administrative Expenses

Selling and general administrative expenses were SR 151 million in 2013 compared to SR 154 million in 2012, representing a slight decrease of 2%.

9.4.4 Financing Charges

Net financing charges were SR 314 million in 2013 compared to SR 264 million in 2012, representing an increase of SR 50 million. This increase is primarily attributable to the successful issuances of two international Sukuk facilities totalling SR 2,812 million (US\$750 million) which raised the cost of financing operations listed in the financial statement in 2012.

9.4.5 Net Income

Net income in 2013 reached SR 681 million compared to SR 989 million in 2012. Earnings per share were SR 0.63 in 2013 compared to SR 0.92 in 2012. In conclusion from the above, the decrease in net income was driven firstly by lower property sales, as the Company was conservative in its property offering due to its strong cash position in 2013 compared to 2012; secondly it was due to the decrease in non-operating income driven by a lower SWAP derivative valuation, the decline in returns from Islamic deposits, and finally the increase in finance charges, which were partially offset by lower non-operating costs and Zakat provisions.

9.5 Liquidity and Capital Resources

As of 31 December 2013, we had cash and cash equivalents of SR 2,279 million compared with SR 536 million as at 31 December 2012.

9.5.1 Cash Flows

The following table sets out the Company's cash flows for the financial periods 2012 and 2013:

| <i>(in millions of Saudi Riyals)</i> | 2013 | 2012 |
|---|-------|---------|
| <i>Funds from Operating Activities</i> | 1,005 | 685 |
| <i>Funds (used in)/ from Investing Activities</i> | (751) | 379 |
| <i>Funds from/ (used in) Financing Activities</i> | 1,490 | (3,034) |

Net cash flow from operations stood at SR 1,005 million in 2013 compared to SR 685 million in 2012. The positive variance is mostly related to the reduction of receivables and other working capital movements in 2013.

The Company's net investments in land and project development have primarily led to an overall outflow of cash in investing activities of SR 751 million in 2013.

The cash inflow from financing activities of SR 1,490 million was primarily from the issuance of new Islamic Sukuk and the early repayment of 87% of its third Sukuk (local SR issuance) due on 15 April 2014 and the repayment of other Islamic Murabaha facilities due in 2013.

9.5.2 Projects and Investment Expenditures

Our priorities for expenditure on projects include continuing to build integrated residential developments, investing in developing land and purchasing and developing income generating properties. During 2013, we spent SR 2,485 million on land and development projects.

The amount and timing of project expenditure may be affected by a number of risks. We believe that our requirements for project expenditure can be met through a combination of cash generated from operations and external finance from various sources.

10 Dividend Policy

Based on the results of the financial performance of the previous years and as approved by the Company's General Assembly meetings, dividends are paid to shareholders based on the Company's income, financial status, market and general economic conditions, as well as other factors such as the existence of investment opportunities, re-investment requirements, cash and financial reserves, business opportunities, and other regulatory considerations.

Article (43) of the Company's Articles of Association stipulates that in the event of a cash dividend to shareholders, the Company should distribute its net profit after Zakat (tax) allocation and allowing for a statutory 10% of net income as a statutory reserve. The remainder could be distributed to shareholders at no less than 5% of the paid-up capital.

11 The Company's Financing Programme during the Last Five Years

11.1 Award of the "First Rating Agency of Malaysia (RAM) Rated Foreign Entity for Its Outstanding Contribution to the Malaysian Sukuk Market"

Dar Al-Arkan Real Estate Development Company has won the First RAM-Rated Foreign Entity Award by RAM Rating for its outstanding contribution to the Malaysian Sukuk market. The award is to honour non-Malaysian Sukuk issuers. It is granted to a select few that have been pivotal to the development of Malaysia as a world leading Islamic Sukuk market.



11.2 Financing Strategy

The Company's financing strategy, initiated in 2007, aims to maximise return on equity through optimising the capital structure. It is primarily focused on matching its project investment cycle of three to five years with the debt's maturity profile. Also the Company seeks to diversify its sources of funding so it is not solely dependent on local banks and capital markets. The implementation of this strategy was evident from the issuance of a series of local and international Shariah-compliant Sukuk over the last six years; the Company has successfully issued five international and one local Sukuk. 2013 was the most active year where the Company issued two new International Sukuk and on 23/12/2013 made an early repayment of 87% of the third Sukuk (local issuance) which is due for maturity in April 2014.

Total funds raised from Sukuk amounted to SR 11.2 billion, SR 6.65 billion of which has already been repaid at the end of 2013, whilst the remaining SR 4.6 billion is due for maturity within the next 4 years. Pursuant to its diversification strategy, the Company has successfully established good relationships with local, regional and international banks where it has achieved short and medium term financing mostly through renewable Islamic Murabaha or Ijarah facilities for general corporate purposes. The total outstanding amount at the end of 2013 was SR 1.4 billion.

The ratio of long term (Sukuk) to total finance as at end of 2013 was approximately 78%, whereas short and medium-term financing was 22%. In future, the Company's financing strategy will continue to focus on further diversifying its sources of funding including acquiring project specific financing from local and regional banks, as well as exploring other International Sukuk markets. The Company is also building a portfolio of rental properties, where these income-generating assets can be offered as security for loans from financial institutions. In addition, Dar Al-Arkan's excellent credit record should continue to facilitate access to domestic and international capital markets for issuance of Islamic Sukuk.

11.3 Indebtedness

All financing taken by the Company locally or internationally is Shariah-compliant and follows the structures of Ijarah and Murabaha transactions. Below is a description of the repayments and outstanding debts at the end of 2013.

11.3.1 Increase in Financing at the End of 2013

By the end of 2013, the Company raised total net financing of SR 1.5 billion. The Company issued new Sukuk in May 2013 and November 2013 for SR 1.7 billion and SR 1.1 billion respectively, both at a coupon rate of 5.75%. These issuances confirm the Company's ability to tap the market as and when required and enable it to raise debt at historically low rates. The Company repaid 87% (SR 650 million) of its 2014 SR 750m third Sukuk (local issuance) four months prior to its maturity, and also repaid some of the local bilateral Murabaha facilities amounting to SR 726 million.

| <i>Bilateral Islamic Facilities in SR mn</i> | <i>settlement</i> | Opening Balance | Paid During 2013 | Closing Balance |
|--|---|--------------------|------------------------|--------------------|
| <i>Murabaha 1</i> | <i>Semi Annual settlement</i> | 150 | 100 | 50 |
| <i>Murabaha 2</i> | <i>Fully settled</i> | 68 | 68 | - |
| <i>Murabaha 3</i> | <i>Semi Annual payment</i> | 86 | 57 | 29 |
| <i>Murabaha 4</i> | <i>Quarterly payment from Q1-14</i> | 400 | - | 400 |
| <i>Ijarah 1</i> | <i>Bullet Payment</i> | 46 | - | 46 |
| <i>Murabaha 5</i> | <i>Quarterly settlement</i> | 80 | 20 | 60 |
| <i>Ijarah 2</i> | <i>Bullet Payment</i> | 42 | - | 42 |
| <i>Murabaha 6</i> | <i>Quarterly settlement</i> | 18 | 10 | 8 |
| <i>Murabaha 7</i> | <i>Fully settled in 2013</i> | 75 | 75 | - |
| <i>Ijarah 3</i> | <i>Quarterly settlement</i> | 1,039 | 378 | 661 |
| <i>Murabaha 8</i> | <i>Quarterly settlement</i> | - | 19 | 94 |
| <i>Gross Total</i> | | 2,003 | 726 | 1,389 |

The ratio of net debt to total assets reduced from 17.5% at the end of 2012 to 15% at the end of 2013. The closing cash balance improved to SR 2.3 billion at the end of 2013 compared to SR 0.5 billion reported at the end 2012.

| Maturity date | In millions of Saudi Riyal | | |
|---------------|----------------------------|----------|-------|
| | Outstanding balance | Murabaha | Sukuk |
| 2014 | 757 | 657 | 100 |
| 2015 | 2257 | 569 | 1688 |
| 2016 | 1288 | 163 | 1125 |
| Up to 2018 | 1688 | - | 1688 |
| Total | 5,989 | 1,389 | 4,600 |

11.4 Overview of the Sukuk Issuances and Repayments in 2013.

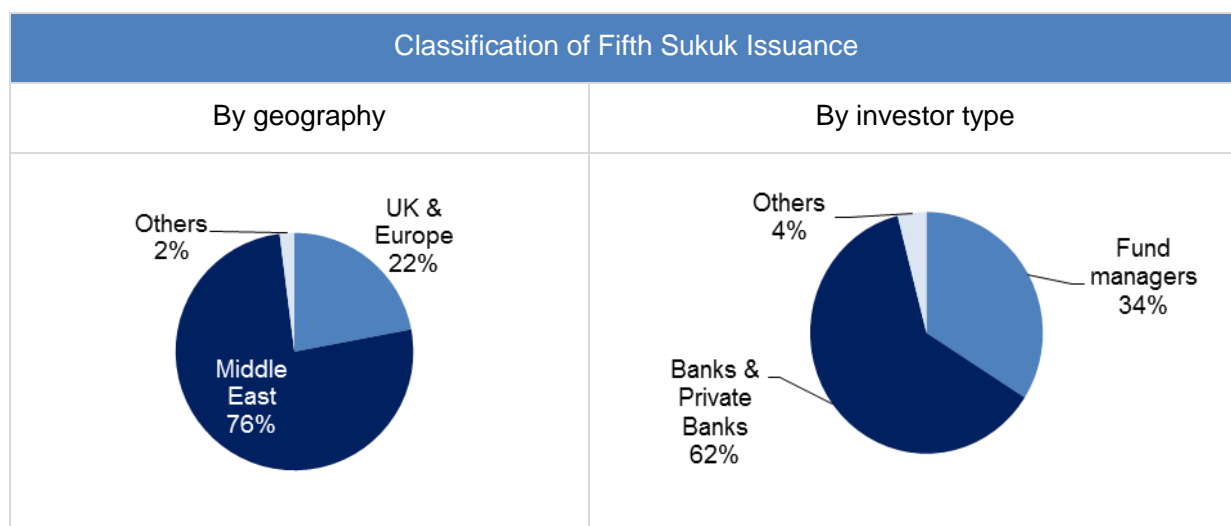
11.4.1 The Early Repayment of the Third Sukuk Issuance

On 23 December 2013, Dar Al-Arkan concluded the purchase of SR 650mn, which is 87% of its SR 750m local Islamic Third Sukuk maturing on 15 April 2014. The 87% was purchased in accordance with its terms and conditions, and has subsequently been cancelled. The remaining SR 100m is due for maturity on 15 April 2014. This partial repayment ahead of the scheduled redemption date is in line with DAAR's strategy to manage its liabilities efficiently and to fulfill its commitments proactively.

11.4.2 The Fifth Sukuk Issuance

On 21 May 2013, Dar Al-Arkan priced \$450mn of 5-year Reg S Sukuk Al-Wakala certificates as the 1st tranche from its newly established \$750mn Reg S Trust Certificate Issuance Programme. The Sukuk was oversubscribed by almost 4 times of the issued amount. The price for the Sukuk fell by almost 37.5 basis points resulting in a coupon rate of 5.75%. The transaction was heavily subscribed by Commercial and Private Banks (62%) whereas Fund Managers were the second largest group of investors.

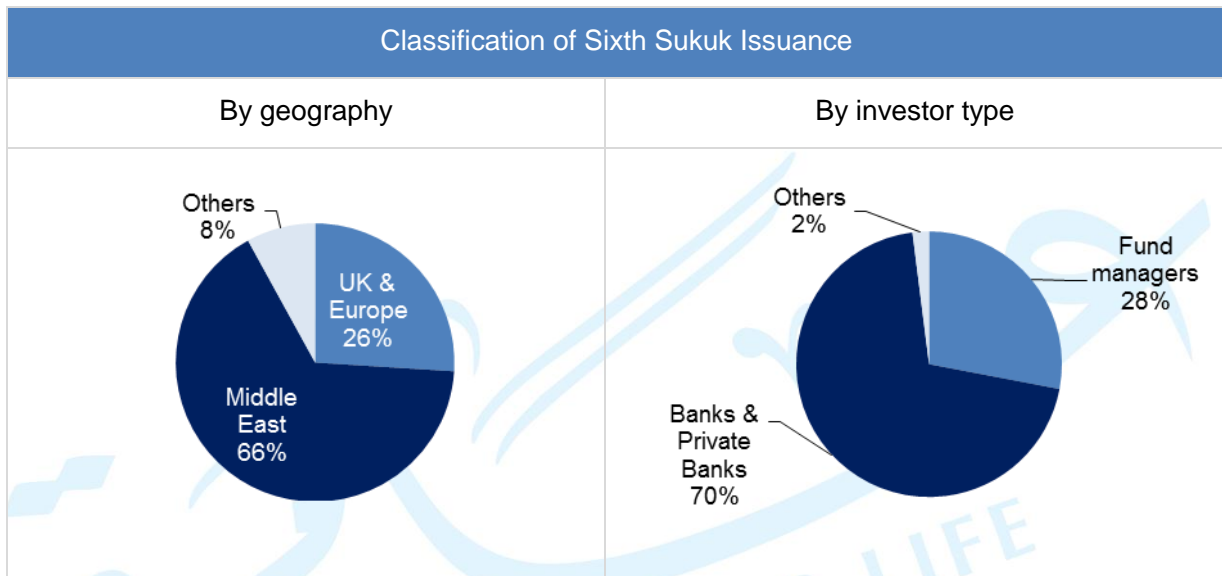
Geographically the Sukuk was very popular; 76% of Sukuk participants were from GCC countries and the remaining were from Europe and the Rest of the World.



11.4.3 The Sixth Sukuk Issuance

On 25 November 2013, Dar Al-Arkan priced \$300mn of 3-year Reg S Sukuk Al-Wakala certificates from its recently updated and upsized \$1.2b Reg S Trust Certificate Issuance Programme. The bond was oversubscribed by a multiple of the issued amount. The Sukuk was priced at tight levels against its outstanding curve at a coupon rate of 5.75%.

The investor type for the November 2013 transaction was equally well diversified: 70% were investors from commercial and private banks and 28% were fund managers. Geographically the Sukuk was very popular in the GCC. 66% of the Sukuk buyers were from GCC countries and the remaining were from Europe and the rest of the world.



12 Related Party Transactions

During 2013, the Company entered into transactions with related parties. The Company follows the same procedures as with other non-related parties.

12.1 Saudi Home Loans "SHL"

In the ordinary course of business, the Company entered into transactions with Saudi Home Loans "SHL". SHL is a related party and the Company owns a 15% equity stake. The common Board members between SHL and Dar Al-Arkan are namely: Mr. Yusuf Abdullah Al Shelash, Mr. Hathloul Saleh Al Hathloul, Mr. Tariq Mohammed Al Jarallah and Mr. Abdullatif Abdullah Al Shelash. The nature of these transactions was for the financing of Dar Al-Arkan's customers to buy homes. The choice of SHL as a home loan provider is at the discretion of the customer. During 2013, there were no sales transactions with SHL. However, the total amount that was due from this related party for transactions in prior years was SR 143,000.

12.2 Khozam Real Estate Development Company (KDC)

Khozam Real Estate Development Company (KDC) is a related party as the Company has a 51% equity holding. The management of KDC requested that it invests its excess cash balance (opening balance as at beginning of 2013 amounted to SR 198.1 million) with Dar Al-Arkan at nominal interest repayable on demand to facilitate its working capital needs. During 2013 the Company repaid SR 3.8 million of this in advance, together with interest of SR 1.96 million for its operational requirements. The closing balance as at 31 December 2013 was SR 196.25 million.

12.3 Bank Alkhair

During 2013, the Company entered into transactions with Bank Alkhair B.S.C, which is a related party because it has common Board Members with Dar Al-Arkan. The common Board Members are Mr. Yusuf Abdullah Al Shelash, Mr. Hathloul Saleh Al Hathloul, Mr. Majed Abdulrahman Al Gasim, and Mr. Abdullatif Abdullah Al Shelash. The Company enlisted Bank Alkhair to provide general financial advisory work on Shariah-compliance advice and management of the recent international Sukuk issuances. Total fees and expenses charged during the year were SR 6.7 million of which SR 5.4 million was paid. The remainder is to be paid in the current year.

12.4 Alkhair Capital

During 2013, the Company indirectly entered into transactions through Bank Alkhair with Alkhair Capital. Alkhair Capital is a related party as the Company owns a 34% equity stake in it. Alkhair Capital was engaged to provide general financial advisory, representing and filing the documents on behalf of the Company with CMA, Tadawul and other statutory bodies, Shariah compliance reviews and management support for the recent international Sukuk issuances and the partial pre-closure of the Third Sukuk. Fees and expenses amounted to SR 1.4 million.

13 Risks Attributable to the Company's Activities

- Availability of cost effective funds required to undertake large capital investments to achieve the Company's growth objectives
- Reliance on overall growth in the real estate sector and the economy. Any long term slowdown will negatively impact the Company's growth
- Reliance on contractors to fulfill their contractual obligations. Any shortfall in their performance could affect the projects' completion and profitability
- Cost of the Company's projects would be adversely affected by any unexpected rise in materials or labour prices.



14 Management and Administration

14.1 Board of Directors

The Board of Directors assumed its 2013 functions with 10 members, and the number was then increased to 11 to conform with the Company Articles of Association in with accordance the Company's Tenth General Assembly Meeting Resolution dated 29/6/2013. The Board is composed of two executive, three non-executive and six independent Directors, as follows:

| Member Name | Capacity | Classification | Attendance | Other JSC Membership |
|--|----------|----------------|------------|--|
| <i>Yousef Abdullah Al Shelash</i> | Chairman | Non-Executive | 4 | Saudi Home loans Co. (SHL) Alkhair Investment Bank Alkhair Capital |
| <i>Abdullatif Bin Abdullah Al Shalash</i> | MD | Executive | 3 | Saudi Home loans Co. (SHL) Alkhair Investment Bank Alkhair Capital |
| <i>Hathloul Bin Saleh Al Hathloul</i> | Member | Non-Executive | 4 | Saudi Home loans Co. (SHL) Alkhair Investment Bank Alkhair Capital |
| <i>Tariq Bin Mohamed Al Jarallah</i> | Member | Independent | 4 | Saudi Home loans Co. (SHL) |
| <i>Khalid Bin Abdullah Al Shelash</i> | Member | Non-Executive | 4 | |
| <i>Abdulaziz Bin Abdullah Al Shelash</i> | Member | Independent | 4 | |
| <i>Majid Bin Romi Al Romi</i> | Member | Independent | 3 | |
| <i>Fahad Bin Salih Al Aglaan</i> | Member | Independent | 1 | Yanbu Cement Company |
| <i>Majid Bin Abdulrahman Al Qasim</i> | Member | Independent | 4 | Alkhair Investment Bank |
| <i>Ahmed Bin M. Osman Al Dahash</i> | Member | Independent | 1 | |
| <i>Dr. Abdulrahman Bin Hamad Al Harkan</i> | Member | Executive-GM | 2 | |

14.2 Board Meetings Register

The Board meets quarterly at the request of the Chairman, and at other times contingent on specific requirements. The Board held four meetings in 2013 according to the attendance record shown below:

| Member Name | First Meeting 25/02/2013 | Second Meeting 19/05/2013 | Third Meeting 29/06/2013 | Fourth Meeting 19/11/2013 |
|--|-----------------------------|------------------------------|-----------------------------|------------------------------|
| <i>Yousef Bin Abdullah Al Shelash</i> | Attended | Attended | Attended | Attended |
| <i>Abdullatif Bin Abdullah Al Shalash</i> | Attended | Attended | Attended | - |
| <i>Hathloul Bin Saleh Al Hathloul</i> | Attended | Attended | Attended | Attended |
| <i>Tariq Bin Mohamed Al Jarallah</i> | Attended | Attended | Attended | Attended |
| <i>Khalid Bin Abdullah Al Shelash</i> | Attended | Attended | Attended | Attended |
| <i>Abdulaziz Abdullah Al Shelash</i> | Attended | Attended | Attended | Attended |
| <i>Majid Bin Romi Al Romi</i> | Attended | - | Attended | Attended |
| <i>Fahad Salih Al Aglaan</i> | -- | -- | -- | Attended |
| <i>Majid Bin Abdulrahman Al Qasim</i> | Attended | Attended | Attended | Attended |
| <i>Ahmed Bin Mohamed. Osman Al Dahash</i> | - | - | - | Attended |
| <i>Dr. Abdulrahman Bin Hamad. Al Harkan</i> | - | - | Attended | Attended |
| <i>Abdulrahman Bin Abdulaziz. Al Hussain</i> | Attended | Attended | - | - |

Notes:

Members whose membership expired with the Board's last tenure:

- 1) Abdulkareem H. Al Babtain
- 2) Abdulrahman A. Al Hussain (representative of General Organisation of Social insurance)

Members elected by the General Assembly to join the recent Board tenure:

- 1) Fahad Salih Al Aglaan (representative of General Organisation of Social insurance)

- 2) Ahmed M. Osman Al Dahash
- 3) Dr. Abdulrahman H. Al Harkan

14.3 Board Committees

Preface:

The Board comprises four committees: Executive, Investment, Audit and a Remuneration and Nominations committee. The Board elected by the Company's Tenth Ordinary General Assembly held on 29/06/2013 re-established these committees and designated its membership as follows:

14.3.1 The Executive Committee, Consisting of:

| | |
|--|----------|
| 1- Yousef Bin Abdullah Al Shelash | Chairman |
| 2- Tariq Bin Mohamed Al Jarallah | Member |
| 3- Abdullatif Bin Abdullah Al Shalash | Member |
| 4- Dr. Abdulrahman Bin Hamad Al Harkan | Member |

Committee Responsibilities and Meetings:

These are as follows:

Monitor the implementation of the strategy by overseeing the preparation of the operational plan and its execution; reviewing and recommending the adoption of the Company's values, vision, goals and policies that determine the Company's overall approach to executing its work; pursue financing plans in respect of the Company's investments; provide advice in relation to investments including engagement in mergers and or joint ventures and/ or obtaining project financing; ensure the allocation of resources for the implementation of the Company's strategies such as funding and human resources; develop criteria for selecting the CEO and senior executive staff and to supervising its implementation; review and evaluate the performance of the executive management in achieving the goals of the set strategy and monitor and address any deviations; review and evaluate the strategy plans quarterly in order to evaluate and modify them when necessary according to market information and internal requirements; review periodic reports presented by the executive management that relate to the Company's competitive situation and organisational, financial and technical factors which may affect the Company's long term strategy; approve the recommendations of the human resources policies and regulations; review and evaluate the market and competitive trends put forward by the executive management and assess its impact on the Company's business. The Committee held 10 meetings in 2013, four of which were after the formation of the new committee.

14.3.2 The Audit Committee, Consisting of:

| | |
|-----------------------------------|----------|
| 1- Tariq Bin Mohamed Al Jarallah | Chairman |
| 2- Majed Bin Abdulrahman Al Gasim | Member |
| 3- Hathloul Bin Saleh Al Hathloul | Member |
| 4- Majed Bin Romi Al Romi | Member |

The Committee's Responsibilities and Meetings:

These are as follows:

Recommendation to the Board of Directors to appoint auditors and set their retainer after being satisfied of their independence and approve any work outside the scope of the audit assigned to

them; review and follow up recommendations made by the auditor on the financial statements; see the audit plan with the auditor and discuss all issues that fall within their remit at regular meetings with the auditor; review interim and annual financial statements before submission to the Board of Directors and give an opinion and recommendation on these statements; periodically review the accounting policies of the Company against the regulations and initiatives and give recommendations to the Board; decide on any dispute that may arise between the Company's management and the auditor in respect of his scope and nature of work; oversee the Company's internal audit department to verify its effectiveness and independence to execute tasks and functions set by the Board of Directors; review and approve the annual audit plan and all significant changes therein; ensure the compliance of the internal audit department with international standards for the professional practice of internal auditing; review the internal audit reports and pursue any corrective action required; review and give a written opinion and recommendation on the internal control system; evaluate the effectiveness of the Company's risk management and the measures adopted by the management to observe and deal with these risks; oversee the compliance department and verify its effectiveness; approve the policies and compliance manual; assess the compliance policies in a regular manner and verify their effectiveness as well as supervise the efforts of the Company to comply with policies and rules of professional conduct and relevant regulations. The committee held 5 meetings during 2013, two of which were after the formation of the new Committee.

14.3.3 The Nominations and Remuneration Committee, Consisting of:

- | | |
|--------------------------------------|----------|
| 1- Majed Bin Abdulrahman Al Gasim | Chairman |
| 2- Yousef Bin Abdullah Al Shelash | Member |
| 3- Khalid Bin Abdullah Al Shelash | Member |
| 4- Abdulaziz Bin Abdullah Al Shelash | Member |

Committee Responsibilities and Meetings:

These are as follows:

Recommendation to the Board of Directors to nominate for Board membership; annual review of the appropriate skills needed for Board membership and provide a description of the capabilities and qualifications required for membership; review the structure of the Board of Directors and recommend necessary changes identifying weaknesses and strengths; confirm periodically the independence of members and absence of any conflict of interests in the event of another Company Board membership; develop clear policies and criteria for Board members and senior executive remuneration according to performance criteria. The Committee held 4 meetings during 2013, two of which were after the formation of the new Committee.

15 Remuneration and Compensation Paid to Board Members and Senior Executives

The following table shows the remuneration and compensation paid to Board members and the top five senior executives who received the highest bonuses and compensation from the Company during 2013.

| Description (in Saudi Riyal) | Executive Board members | Non-executive/independent Board members | Senior executives (including general manager and CFO) |
|--|-------------------------|---|---|
| Salaries and compensation | - | - | 7,427,000 |
| Allowances | - | - | 2,314,250 |
| Periodic and annual bonuses | - | - | - |
| Incentive plans | - | - | - |
| Any other compensations or incentives paid monthly or annually | - | - | - |

16 Description of any Interest of Board Directors and Senior Executives and their relatives in the Company's Shares and changes during 2013

| Name | capacity | No. of shares at the beginning of the year | Ownership percentage at the beginning of the year | Net variance in the No. of shares during the year | Total shares at the end of the year | Total ownership percentage at the end of the year | Nature of ownership |
|------------------------------------|--------------|--|---|---|-------------------------------------|---|---|
| Yousef Bin Abdullah Al Shelash | Chairman | 83,989,083 | 7.78% | (80,315,717) | 3,673,366 | 0.34% | Direct |
| | | 2,120,000 | 0.20% | 0 | 2,120,000 | 0.20% | Indirect: a share in the ownership of private company |
| Hathloul Bin Saleh Al Hathloul | Board member | 32,888,482 | 3.05% | (25,500,000) | 7,388,482 | 0.68% | Direct |
| | | 4,923,336 | 0.46% | (4,923,336) | - | 0.00% | Indirect: a share in the ownership of private company |
| Khalid Bin Abdullah Al Shelash | Board member | 98,352,745 | 9.11% | 0 | 98,352,745 | 9.11% | Direct |
| | | 957 | 0.0001% | 0 | 957 | 0.00% | Indirect: a share in the ownership of private company |
| Majed Bin Abdul Rahman Al Qasim | Board member | 2,800,000 | 0.26% | 0 | 2,800,000 | 0.26% | Direct |
| | | 44,310,022 | 4.10% | (44,310,022) | 0 | 0.00% | Owned by direct relatives |
| | | 639,154 | 0.06% | 0 | 639,154 | 0.06% | Owned by direct relatives |
| Tariq Bin Mohamed Al Jarallah | Board member | 3,333,301 | 0.31% | (3,330,301) | 3,000 | 0.00% | Direct |
| | | 0 | 0.00% | 34,320,000 | 34,320,000 | 3.18% | Indirect: a share in the ownership of a private company |
| Abdul Aziz Bin Abdullah Al Shelash | Board member | 5,000 | 0.0005% | 2,440,000 | 2,445,000 | 0.23% | Direct |
| | | 0 | 0.00% | 17,517,500 | 17,517,500 | 1.62% | Indirect: a share in the ownership of a private company |
| Majid Bin Romi Al Romi | Board member | 4,598,363 | 0.43% | 2,440,000 | 7,038,363 | 0.65% | Direct |
| | | 0 | 0.00% | 19,662,500 | 19,662,500 | 1.82% | Indirect: a share in the ownership of a private company |
| Abdullatif Bin Abdullah Al Shelash | Board member | 4,483,000 | 0.42% | 2,440,000 | 6,923,000 | 0.64% | Direct |

| Name | capacity | No. of shares at the beginning of the year | Ownership percentage at the beginning of the year | Net variance in the No. of shares during the year | Total shares at the end of the year | Total ownership percentage at the end of the year | Nature of ownership |
|--|----------------------|--|---|---|-------------------------------------|---|--|
| <i>Abdul Kareem Bin Hamad Al Babtain</i> | Board member | 2,000 | 0.00% | 0 | 2,000 | 0.00% | Direct |
| <i>Ahmed M. Osman Al Dahash</i> | Board member | 2,005,104 | 0.19% | 0 | 2,005,104 | 0.19% | Direct |
| <i>Fahad Salih Al Aglaan (in person)</i> | Board member | 0 | 0.00% | 0 | 0 | 0.00% | Direct |
| <i>Fahad Salih Al Aglaan (as a representative of GOSI)</i> | Board member | 43,780,457 | 4.05% | 0 | 43,780,457 | 4.05% | Owned by general Organisation for social insurance |
| <i>Abdulrahman H. S. Al Harkan</i> | Board member & GM | 10,000 | 0.001% | 0 | 10,000 | 0.00% | Direct |
| <i>Ahmed Bin Saleh Al Dehailan</i> | Chief Internal Audit | 60,000 | 0.006% | 20,000 | 80,000 | 0.01% | Direct |
| TOTAL | | 328,301,004 | 30.40% | (79,539,376) | 248,761,628 | 23.03% | |

17 Description of any Interested Parties (other than Board Directors and Senior Executives and their relatives) notifying the Company of ownership of 5% or more and any changes in 2013

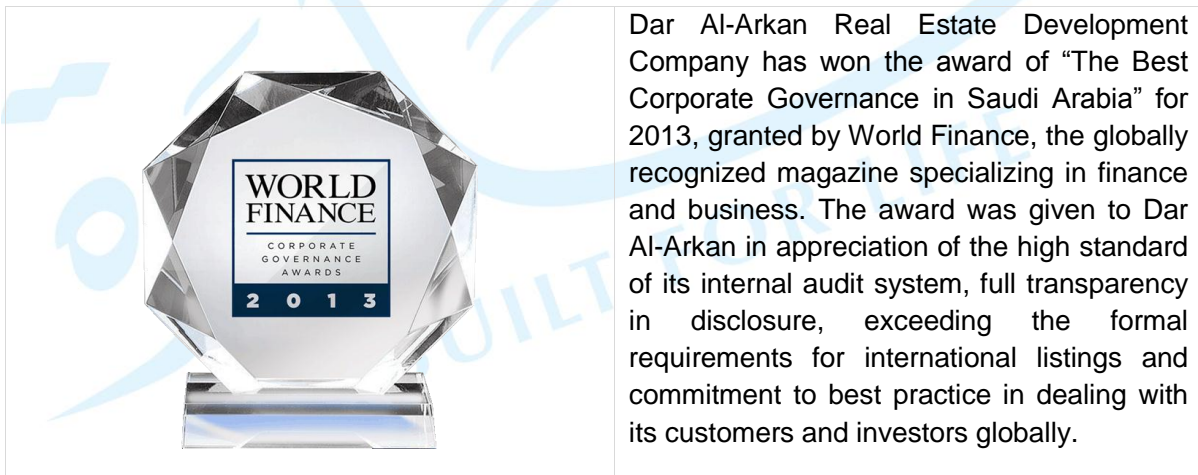
| Name | Notification date | No. of shares | Ownership percentage | Variance in percentage of shares during the year |
|------------------------------------|-------------------|---------------|----------------------|--|
| <i>Kingdom installment Company</i> | 9-Mar-2013 | 55,496,109 | 5.139% | - |
| <i>Kingdom instalment Company</i> | 26-Jun-2013 | 71,500,000 | 6.620% | 1.482% |

18 Corporate Governance

Subject to Corporate Governance issued by the Capital Market Authority, the Board of Directors has approved the Company's Corporate Governance taking into consideration the rights of shareholders, customers, employees and all stakeholders and care for their interests. Corporate Governance is committed to the principles of transparency and disclosure, activating the role of the Board and the executive management and identifying their responsibilities and training on an on-going basis. It also seeks to enhance the effectiveness of internal control and risk management. Additional compliance with Corporate Governance regulation issued by the Capital Market Authority means adopting best practices in Governance to enhance the corporate culture and ensure sound management. Ultimately this is to reflect the Company's desire to work hard to reach the highest levels of governance, setting an example as a national company. The Board of Directors achieves its objectives through effective Committees, namely the Executive, Audit, Nominations and Remuneration committees.

The adoption of cumulative voting rights is still under discussion, where the Company's Articles of Association, issued by the Capital Market Authority, accepts clause (b) of Article 6, "voting rights", in relation to cumulative voting as a means of voting in respect of member selection to the Board at the General Assembly. This is under review, as the Company's bylaws have not included rules on cumulative voting.

18.1 "The Best Corporate Governance" Award in Saudi Arabia from World Finance



18.2 “The Best Corporate Governance” Award in the Middle East and North Africa from The European



Dar Al-Arkan Real Estate Development Company has won the award of “The best Corporate Governance in the Middle East and North Africa” for 2013 from The European, a magazine specializing in finance and business in recognition of Dar Al-Arkan’s achievements in corporate governance and its commitment to applying the highest standards of governance.

19 Internal Audit

The internal audit function is one of the major departments in the Company. In recognition of its critical role and to ensure its independence, it reports directly to the Board of Directors. The function operates in accordance with the highest international auditing standards. Their professional staff are certified by the International Institute of Internal Audit.

The internal audit function provides independent, objective and advisory services for the purpose of adding value and improving the Company’s operations. Internal audit helps the Company achieve its goals by applying a methodology aimed at improving risk controls, reviewing the effectiveness of internal procedures and enforcing corporate governance. Internal audit provides senior management and the Audit Committee with relevant, objective and timely information. This information is not limited to evaluating the current position of the Company but provides managers and the Board of Directors with information they need to discharge their responsibilities and take the appropriate financial and executive decisions. Internal audit achieves its objectives by helping company employees carry out their jobs effectively, providing them with analysis, assessment, recommendations, advice, and all information relevant to audit activity and cost-effective execution of all the Company’s operations.

During 2013 the internal audit made many suggestions and recommendations regarding improvement of some policies and regulations with the intention of improving performance and monitoring project cost and internal controls, in addition to giving support and assistance to other departments to help them attain their objectives.

20 Internal Control

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

20.1 Features of the Internal Control System

The Control Environment in the Company

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

Advanced Information Systems

The Company builds its advanced systems to conform with international standards, establishing effective internal controls that produce accurate and transparent information.

Internal Control Procedures

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

20.2 Results of the Effectiveness of the Company's Internal Controls in the Annual Audit

During 2013, the Audit Committee of the Board of Directors reviewed various reports prepared by the Internal Audit Department and submitted a report to the Board of Directors regarding its recommendations. The Board of Directors reviewed the effectiveness of the Company's internal controls at financial and operational levels and in compliance with policies and regulations of risk management. The review did not find any material weaknesses in the internal control system.

21 Investor Relations

Communication with shareholders, investors and the financial community are given high priority as an important part of the Company's strategy and there is regular dialogue between Company executives and its shareholders, local and international investors. During the year, the Company undertook procedures that ensure shareholders' access to company information through transparent disclosure aligned to the rules of the CMA. Information is disseminated through approved channels including the publication of periodic and annual financial statements, progress of projects, Board of Director recommendations and any other material occurrences relating to the Company's operations.

To enhance the effectiveness of communication with investors, analysts and the financial community, and in order to disseminate accurate information about the Company's operations, the Company holds periodic meetings with investors and other stakeholders including shareholders, Sukuk-holders and financial analysts from local and international banks that maintain coverage of the Company. The aim is to ensure the effectiveness of regular communication and transparent disclosure that will be reflected in a proper understanding and fair evaluation of the Company's business.

Specialist staff in the investor relations department support shareholder, investor and analyst inquiries through a variety of channels. These include providing a toll free telephone number, e-mail and fax contact details, as well as developing the IR section on the Company website with full access to Company information.

The Company invites all shareholders to attend the general assembly meetings and take part in decision making. The Company announces such invitations through the website of the Saudi capital market (TADAWUL), the Company's website and daily newspapers. The Company facilitates automated systems to ensure accurate recording and counting of votes and transparent analysis of results by qualified staff who facilitate the running of general assembly operations in accordance with applied rules and in the presence of competent authorities. In light of this, the Company's shareholders were involved in voting in the tenth ordinary general assembly meeting held on 29 June 2013.

In a bid to expand its investor base, the Company has participated in a number of international investor events to showcase success stories of its current projects and future investments. The Company's presence at these events has emphasized the solid base of the Company and its financial position, as well as the opportunities available in the Saudi real estate sector and the investment climate in the Kingdom in general.

An illustration showing Dar Al-Arkan meetings with its investors during 2013



22 Human Resources

Human Capital

The Company's management focus is to attract, acquire and retain competent employees to face current and future challenges and to invest in human capital by providing further training and skills development. The total headcount for the Company at 31 December 2013 is 332 employees.

Organisational Structure

During 2013, the Company has embarked upon the development of an organisational structure in line with best practice taking into consideration current and future expansion to consolidate its leadership position in the region. The Company has added the following functions under the Chief Executive Officer:

- Chief Construction Officer.
- Chief Commercial Officer: Development Department, Sales Department and Marketing Department.
- Chief Asset Management Officer.
- Chief Administrative Officer: HR & Administrative Department, IT Department, Legal Department and Quality Assurance Department.
- Chief Land Officer.

Senior Management Biography:

Dr. Abdulrahman bin Hamad Al Harkan - General Manager

Dr. Abdulrahman bin Hamad Al Harkan holds a doctorate degree in Architectural Engineering from the University of Michigan Ann Arbor in America and worked in several management and academic positions in the public and private sector.

Alan David Masterton – Chief Asset Management Officer

Alan holds a master's degree in business administration from the University of London, and has worked in several management positions as a Project Director at KAUST and Campus and Services Director at the University of Sydney. Alan has extensive experience in the field of Asset Management.

Mohammed Ali Hashim – Chief Construction Officer

Mohammed holds a bachelor's degree in Building from the Nottingham Trent University, United Kingdom. Mohammed has worked in several construction companies where he worked as Projects Director at Alkhodary Company and worked as Head of Project Management at Amwaj Properties.

Mika Johannes Toivola - Chief Financial Officer

Mika holds a master's degree in Economics and Accounting and worked in several senior posts as CFO of AlArrab Construction Company, a subsidiary of Al Rajhi Group and served as CFO of the Skanska Group for seven years. Mika has extensive experience in the field of financial management.

Isidro Maria Beccar – Chief Commercial Officer

Isidro holds a bachelor's degree in law from the University of De La Plata in Argentina and has extensive experience in commercial affairs. Isidro's last post was Development Director at Qatari Diar Real Estate Investment Company for four years.

23 Quality Assurance

The Quality Assurance Department is concerned with adopting and establishing Total Quality Management principles, which aim to elevate product and services quality and customer satisfaction. The department's activities focus on establishment, activation and improvement of a Quality Management System which consists of policies and procedures and effective implementation and monitoring of the requirements of international quality management standard ISO9001:2008 and other modern systems for quality management and performance improvement.

Quality Assurance Department Achievements in 2013

- Established and updated a number of new procedures to cover additional processes in various functions including Procurement, Construction, and Property Management in addition to other support functions.
- Planned and conducted two cycles of Quality Audit Program for all documented QMS procedures.
- Conducted several quality awareness and performance improvement training seminars including Quality Policy, ISO9001, and Process Mapping.
- Maintained ISO9001 certificate and successfully underwent two external audits.
- Started a major strategic transformation plan for current QMS to accommodate new Organisational Structure requirements.

24 Environmental and Social Responsibility

Dar Al-Arkan is fully aware of the importance of meeting its commitments as a national entity by contributing to the sustainable growth of local communities and protection of the environment, where it develops self-sustained integrated communities in consideration of dominant social values and emphasizing the importance of socio-economic, health, security, environmental and cultural factors in the Kingdom. In this regard, the improvement of living standards and the preservation of the environment constitute the main objectives of the Company. It has applied the philosophy of integrated comprehensive development of residential living with public, social, recreational and commercial services and a sustainable healthy environment with lush green

landscape, pedestrian-friendly roads to reduce pollution alongside leisure areas, as part of the Company's responsibility to preserve the environment.

As part of its corporate social responsibility, Dar Al-Arkan is heading towards implementing real estate projects for the improvement of social welfare. One exceptional project is Qasr Khozam in the centre of Jeddah city, which is a collaboration between the Company and the relevant government agencies for restructuring the Qasr Khozam area and its surrounding slum neighbourhoods. The project is intended to provide integrated urban living with a healthy and safe environment to create a unique living experience, as well as increasing the economic value of the area to attract more investment opportunities and securing thousands of employment opportunities. Further to its social responsibility, the Company has linked the area of Shams Alarous to Palestine Street by a 52 metre wide and a 4 km long road costing SR 30 million.

Dar Al-Arkan is aware of its social responsibility with regard to issues concerning the real estate sector, through analysis of problems and innovative solutions. In this respect, the most outstanding contribution by the Company has been its participation in workshops for the study of housing solutions with the Ministry of Housing in the Kingdom, which expresses opinions on mortgage regulation issued by the Saudi Arabian Monetary Agency. In addition, the Company participates at exhibitions to support real estate activities as a means of communicating with specialists in the sector and other related sectors to exchange knowledge, expertise and views. This contributes to the development of the real estate sector in the region, in addition to communicating with different social categories and customers to identify their needs. The Company's real estate projects are exhibited to satisfy market requirements and the needs of community members.

Furthermore, the social responsibilities of Dar Al-Arkan is extended to its employees by developing their capabilities and potential, providing them with job security and medical care, securing good lifestyles which create an appropriate work environment that improves productivity and quality of performance.

25 Participation and Sponsorships of Dar Al-Arkan during 2013

The 16th Riyadh Real Estate and Urban Development Exhibition – Riyadh

Dar Al-Arkan participated in the 16th Riyadh Real Estate and Urban Development Exhibition held in Riyadh to showcase its pioneering real estate projects of urban real estate development and its achievements in the finished projects, as well as displaying thoughts and expertise in the real estate market, particularly in the housing sector. Dar Al-Arkan aims to enhance interaction with all categories of the local community.

Furthermore, Dar Al-Arkan is committed to playing a role in the implementation of the State's housing policies, by pressing ahead to construct fully serviced integrated housing estates based on its philosophy of comprehensive and corporate development of residential neighbourhoods, given the increasing demand for houses and the unprecedented government support to the housing sector.

26 Board Undertakings

In accordance with Item 23 from Article 43 of the CMA listing rules, the Board of Directors undertakes the following:

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

27 Statement of Regulatory Payments due During 2013

| Item | in (Saudi Riyals) | Description | Type of payment |
|--------------------|-------------------|--|---------------------|
| Social Insurance | 1,592,995 | To be paid as per the rules of GOSI. Paid in full | Regular requirement |
| Government Charges | 696,180 | Charges for building licenses, subscription for Chamber of Commerce, fees for work permits, renewal of Iqamah and others. Paid in full | Regular requirement |
| Zakat | 61,352,511 | Due as per the legitimate rules of Zakat duty and instructions of Dept. of Zakat and Income Tax in Saudi Arabia. Paid in full | Regular requirement |
| Total | 63,641,686 | | |