



**Dar Al-Arkan Real Estate Development Company**

**Board of Directors' Report for the Financial Year  
Ended 31/12/2015**

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## 1 Message from the Chairman

On behalf of the Board of Directors, I am pleased to introduce the annual report of the Dar Al-Arkan Real Estate Company (DAAR) for the year 2015. It is another year in which Dar Al-Arkan continues to lead the real estate sector thanks to DAAR's assets of the distinctive land bank in strategic locations, the development projects and the careful management of such assets. Leading the real estate sector made us always responsible for maintaining such position. And being on the top requires more innovative and creative efforts in a market witnessing a series of difficult circumstances, especially the fluctuations experienced by the real estate sector during the year which led to an unprecedented recession. The year 2015 has seen a sharp decline in purchasing, selling, financing and developing activities for several reasons. The anticipation of the land fees law approved by the Cabinet, the strict implementing regulations of the new mortgage financing legislation and the oil price dip, in addition to the continuous problem of approving permits, all led to slow down the GDP growth, reduce the government expenditure and overall liquidity.

For their part, Dar Al-Arkan remains committed to their revealed strategy which aims at diversifying the income sources and reducing the revenue's amount out of land sales. Such approach will further enhance the Company's capability of better utilizing the actual value of their property when sold, and achieving profit increase with stable rates, as well as reducing the risks that the Company is exposed to.

At Dar Al-Arkan, we believe that crises are always coming with many opportunities. Here we are seeing serious measures being taken to adjust and expand the foundations of the Saudi economy and diversify its resources to be prepared for a long-term scenario of oil price drop. Inevitably, this restructuring process will leave an impact on the real estate market in the long term and will make it more flexible than ever before, hence enabling the private sector to take active part in the economic development of the country and gradually give up the total reliance on the government sector.

On the other side, all indicators are still showing that the demand for housing projects will increasingly grow in Saudi Arabia. The decrease in household size along with the continuing desire to own housing, will support the demand for housing and ensure that the residential properties will remain an attractive investment in 2016. Although the government expenditure was reduced in some sectors; yet the significant government support for housing will continue through the Ministry of Housing, which works hard to create joint venture development opportunities with private sector developers. The Real Estate Development Fund will also expand the housing finance to Saudi citizens and developers as well as introducing gradual amendments of the facilities provided by the mortgage lender.

It is worth mentioning here that the Company's organization structure received a positive push during 2015 by attracting outstanding talents in line with the best globally recognized practices. The company has also adopted a plan to make changes to develop the organizational structure of the company so as to give a space for expansion both vertically and horizontally. The change is meant to enable the company launching more comprehensive services, achieving

more diverse growth and creating a better work environment to allow staff pays their full attention and care to all Company customers. To that end, the Company has provided all the necessary means of measuring the employee's performance within a general framework policy that motivate them and make reflections in the key performance indicators. Such changes will gradually take effect during the year 2016 in an effort towards achieving the Company's business objectives and operational strategy.

Finally; I would like to extend my sincere thanks to my fellow board members for their strenuous efforts and proposed constructive ideas. Thanks go to the colleagues in the executive management and our dedicated staff who have done everything in their power to serve the company. I would also like to extend all the thanks and appreciation to our valued customers and shareholders for their precious trust, praying to Allah Almighty to help us all for the greater good; Excellent is the protector, and Excellent is the helper.

**Yousef Abdullah Al Shalash**

**Chairman**

**Dar Al-Arkan Real Estate Development Co.**

## 2 BOD's strategic review for 2015

### 2.1 Introduction – DAAR remains sector leader despite market headwinds

2015 was a year of significant macro-economic change for the Saudi Arabian market, with a sharp and sustained decline in the oil price of 34%, consideration on how to begin diversifying the country's economy into sectors other than oil related activities and initiatives on the introduction of a 'white land tax' in respect of undeveloped land. Equally, 2015 saw the much-awaited opening up of the country's equity market to qualifying foreign institutions ('QFIs'), which is expected over the longer term to bring about a step change in levels of foreign investment by high quality, international investment institutions in the country's listed companies. Against this backdrop and despite the equity market weakness caused by operational, regulatory and economic challenges, ongoing uncertainty about the macro-economic outlook and government spending policy, DAAR retained its leading position in the Saudi real estate sector as a result of its high quality land portfolio, strategic development projects and strong asset management.

In 2015, market challenges arising during the year have affected the Company's land sales and therefore caused revenues and profits to be lower than originally forecast, which is disappointing. These challenges included concerns over land fees, the mortgage law which introduced more stringent regulations in respect of new mortgages for housing and consequently are holding back significant mortgage uptake as well as a marked decline in land transactions. Also, there have been changes in the Government's approach to the market in terms of strategic direction via the Ministry of Housing ('MOH'). The resulting lower volumes in land transactions are reflected in lower earnings per share, which amounted to SR 0.33 (2014 SR 0.53).

### 2.2 Continued progress with diversification strategy

DAAR remains committed to its strategy of diversifying revenue within its business and reducing the weighting of land sales. This will enhance value creation from owned land, increase earnings visibility, create smoother earnings delivery and reduce the Company's financial risk profile. As previously announced, the target is for an asset split of 50/35/15% between land, leasing, and residential& commercial development in the medium term. The ratio in 2015 was 70/17/13%.

DAAR has a very sizeable high quality, strategic land bank in key growth areas of the Kingdom and continues to acquire land when favorable opportunities arise, as well as investing in land already retained to enhance its value through infrastructure development. DAAR is also well positioned to leverage opportunities in the future when market conditions improve and is committed to achieving a continued balance of acquiring attractive land, whilst managing cash flow effectively to retain balance sheet discipline and plan for future Sukuk repayments.

Looking ahead, gated communities and residential units will provide significant opportunities for further growth in leasing revenue.



### **2.3 Retaining competitive advantage through new opportunities-development services**

DAAR's capability to design and deliver high quality prestige master plan developments has prompted the Company to participate as a bidder in multiple master plan development opportunities initiated by Government ministries and organizations (MOH, MODA, GAGA, PIF) and private entities during the year. Demand for development services or direct participation in developments have arisen from the need for the Government and others to utilize land for residential and mixed use purposes and to employ DAAR as the leading developer in the country to manage these developments on behalf of land owners.

### **2.4 Enhancing organizational structure and optimizing the company's talent in line with best practice**

During 2015, a plan for change was initiated to improve the Company's organizational structure to create more potential for vertical and horizontal expansion, to produce a more comprehensive service offering, achieve economies of scale and other cost efficiencies as well as to create better customer focus through industry dedicated business lines. These changes will gradually take place in 2016 thus improving management structure, reporting lines, and a strengthening of management expertise through selective recruitment to ensure DAAR's management reflects its leading position in the Saudi real estate sector. We are focused on attracting and retaining the best talent in order to drive the Company's long-term growth. During the year, DAAR successfully reorganized its compensation structure to match Saudi Arabian industry standards as well as introduced new KPIs to measure employee performance as a basis for compensation and to drive strategic and operational business goals.

### **2.5 Challenging outlook for 2016 but underlying demand drivers intact**

The overall economic outlook for 2016 continues to be challenging owing to the declining oil price and reconsideration of the country's balance of payments. The tough economic environment, postponement of projects and Government cost cutting measures are likely to make investors more cautious about committing to land investments in 2016, thus reducing the overall desirability of land as an investment asset. However, systemic demand for housing remains a constant in Saudi Arabia, as household sizes decrease and the desire for home ownership continues. These factors will continue to underpin demand and ensure residential real estate continues to be an attractive market segment in 2016. Furthermore, despite reduced Government spending in some areas, there continues to be investment in infrastructure and significant support for housing in the form of MOH co-development opportunities with private developers, the REDF extending residential funding to Saudi citizens and developers and gradual improvements in the mortgage lending environment in the form of relaxed regulation.

The combination of these factors means we must remain focused on delivering our strategy and address the near-term challenges, secure in the knowledge that the longer-term potential for the Saudi real estate market remains compelling.

### 3 BOD's operational review for 2015

#### 3.1 Operational backdrop

##### 3.1.1 Key government and market initiatives affecting the real estate sector in 2015

Against a backdrop of significant macro-economic challenges in 2015, a number of positive developments were seen which will strengthen the fundamentals of the sector and facilitate greater housing activity going forward.

The ongoing MOH efforts should create a more favorable environment for developers to play a key role in solving the housing shortage in Saudi Arabia. As the largest developer in Saudi Arabia, DAAR has significant potential to develop housing in the country and therefore participate in numerous discussions to support new initiatives by the MOH. Most notably, DAAR submitted proposals to the MOH to develop a significant quantity of affordable housing units from its development portfolio in line with the MOH strategy.

The consolidation of REDF into the MOH with its enhanced financial capacity should pave the way for better funding of both developers and purchasers of residential projects in the future.

To address continued stringent LTV requirements from SAMA and their effect on mortgage lending, land trading and house purchases, key market participants including DAAR have made proposals to SAMA to relax or modify mortgage regulations, [by for example increasing LTV requirements] and allow bank lending to resume.

##### 3.1.2 White land fees

In 2015, the Government introduced proposed fees on undeveloped land which has affected the land trading business in 2015 owing to initial uncertainty as to the extent of the impact of the fees and their likely effect on land. The focus of the fees is on land plots which are for residential use within urban areas, those which have been held for substantial periods of time and remain undeveloped, and those provided with municipal services such as roads and utilities. It is unlikely DAAR will be exposed to land fees as the current land portfolio is either fully developed and for sale, under development with infrastructure being built or is purely raw land with few municipal services.

##### 3.1.3 Attractive fundamentals

Despite the short term volatility in the market, the longer term outlook for the residential real estate sector continues to be very attractive in Saudi Arabia driven by favorable demographics and a supportive legislative backdrop (favorable mortgage laws, Government support and supportive MoH policies with the private sector).



## 3.2 Company performance

### 3.2.1 Overall sales impacted by weaker volumes

DAAR revenues were affected by lower transaction volumes in the market and therefore fell below previous years to SR 2,211 million (2014 SR 3,056 million). However, the Company's strong financial discipline and selective approach to land disposals with better margins have contributed to a minor decrease in the net profit margin from 18,8% in 2014 to 16,2% in 2015.

### 3.2.2 Land Trading: 3.4 million M<sup>2</sup> development land sold, but focus on development

DAAR continues to be the biggest land developer in the country with the large stand highest quality land bank in Saudi Arabia. Despite challenging market conditions, DAAR sold 3.4 million M<sup>2</sup> of residential mixed-use land to its clients delivering profitable margins.

Significant investment to develop land continued across the land portfolio, but the addition of new land to the portfolio was very selective focusing only on quality. DAAR was therefore a net seller of land in 2015.

### 3.2.3 Properties : 726,000m<sup>2</sup> leasable assets under management

Managing large scale communities and providing quality, value-for-money services is one of the key elements in positioning Property Management and leasing services to take an increased share of the Kingdom's growing residential market.

One of the key drivers of growth has been the increased focus on the Corporate and Government sectors. DAAR is experiencing significant demand in these segments to lease modern, quality properties in convenient locations.

Increasing the proportion of leasing revenues in the Company's overall mix is a key element of DAAR's diversification strategy. In 2015, leasing revenues rose to 6% of the Company's total revenues versus 4% in 2014.

Occupancy in leased properties increased modestly in 2015, owing to the challenging market backdrop, but nevertheless we saw clear traction with our key customers. Demand for new units in DAAR properties was seen as the number of leased units was increased by additional 97 units. The future demand for residential leased units was increased in Al Qasr which is considered the largest community offering leased units.

In Al Qasr Mall, the new entertainment operator, Al Jamouli, signed a 5,270m<sup>2</sup> lease in Q4, taking entertainment space in the mall to new levels. In addition to Jamouli, thirteen new shops and two fast food outlets were leased during 2015. Al Qasr Mall was chosen for the second time in succession to host the successful Riyadh Shopping Festival.

Both Al Masif compound in Riyadh and Azizia Residential Towers in Medina maintained occupancy of 100% and continued to perform well for the year. Al Tilal residential community continued to be underserved but efforts to lease to the Government and Corporate organizations in Medina continued.

### 3.3 Real Estate Development and major projects: 12 million m<sup>2</sup> of master planned communities under development

#### 3.3.1 Planning Status

DAAR has a number of major projects underway, but the execution of these projects is subject to significant regulatory requirements and procedures. Obtaining necessary permits from the relevant authorities for the master plan developments is an essential pre-requisite for projects and to date, we have experienced significant delays. A key change during the year was assigning Ministry of Housing (MoH) the authority to issue and approve residential master plans. This change will enable developers to quickly get their housing plans approved and allow higher Floor Area Ratios (FAR) where applicable.

#### 3.3.2 Development projects

- **Shams ArRiyadh**

Discussions with the authorities regarding the approval of the master plan made significant progress in 2015, with the Shams Ar Riyadh master plan obtaining ADA support in December. However, some development parameters remained under negotiation at the end of 2015.

The JV to develop Shams Ar Riyadh Gated Community, in cooperation with Dar Al Bayan for the Real Estate Development, moved forward as the market and feasibility study was finalized and used as the basis for detailed design work that was awarded to DWP, a Dubai based engineering organization.

During 2015, further development was made on the Urban Center of Shams ArRiyadh, which is to be marketed as the Northwestern Gate of the Kingdom's Capital, taking advantage of ADA's plans for creating alternative urban centers around the City. The design of this center includes developing retail, hospitality, healthcare, mixed use residential and commercial as well as a Convention Center, an Iconic Tower and a Creative and Media Hub. Discussions are ongoing with anchor tenants and investors regarding the project.

The redesign contract for the project's main roads and related infrastructure was awarded to Saudi Consult in the second half of 2015 and the work will be commissioned to contractors during 2016.

- **Juman in Dammam**

During 2015, the master plan was finalized at a pre-concept level, in line with the development strategy based upon marketing and feasibility studies performed by GRMC. Bathymetric survey studies were completed indicating a very attractive proposition, as the majority (73%) of the land is only 1.1 meters below water level, which will enable DAAR to save costs and accelerate infrastructure development of the project. Discussions were held with various authorities including MoMRA

and Dammam Amana to better define the project and obtain their feedback and guidance.

- **Shams Al Arous in Jeddah**

Developed land plots continued to be offered for sale. The project includes a residential mixed use community with 3,304 units. Zoning of the southern part of the land is in progress with the municipality.

- **Al Tilal in Medina**

Developed land plots continued to be offered for sale. Planning and design of additional units to Al Tilal development is ongoing.

### 3.4 Finance review for 2015

#### 3.4.1 Operational performance

Revenue decreased by 27.6% to SR 2,211million (2014, SR 3,056 million) driven by slower than expected land trading volumes in KSA. Land trading revenue was SR 2,075 million (2014, SR 2931 million) , down 29.2%. Property management and leasing revenue increased to SR 136 million (2014, SR 125 million), up 9.1% of the Properties Management revenues primarily due to MOFA and Al Hammadi hospital rentals commencing in 2015, and was 6% of the Company's total revenue. Gross margin was high, demonstrating the quality of the land sold from DAAR's portfolio. Margin improved to 44.5% (2014, 42.5 %). SG&A was at SR 204million (2014, SR 237million) primarily due to lower professional & consulting services in 2015.

#### 3.4.2 Finance and other expenses

In 2015, the Company succeeded in substantially improving its debt profile and financing expenses, with the average cost of funding falling to 5.5% versus 7.8% in 2014, driven by the 2015 repayments of higher yield Sukuks and improving credit terms with local and regional banking institutions on new or refinanced debt. Finance expenses were SR 385 million (2014, SR 493million). Other income of SR 14million was lower than SR 63 million in 2014 mainly due to lower average cash deposits.

Total assets decreased to SR 25,305 million (2014, SR 26,383 million) driven by repayment of the 2015 Sukuk of SR 1,688 million in February 2015.

#### 3.4.3 Profitability

Reduced transaction volumes brought about a 37.6% decline in net profit to SR 359 inverses SR 575 million in 2014. Profitability decreased in spite of higher margins achieved from land sales and lower operating expenses, with net profit margin dipping to 16.2 % (2014, 18.8 %).

#### 3.4.4 Liquidity and debt

Cash balances decreased to SR 1,001 million (2014, SR 2,310 million) as DAAR repaid its SR 1,688 million 2015 Sukuk in February 2015 and other debt repaid during 2015 amounted to SR 411 million in accordance with due repayment dates of existing loans.

Good progress was made to diversify sources of funding as new debt was issued from local banks against leased properties and existing regional syndicated facilities were refinanced with more favorable terms in the second half. Gross debt stood at SR 6,293million (2014, SR 7,607 million) and gross debt/market capitalization stood at 26%.

Maturities are well spread, liquidity management is prudent and the maturity profile extends to 2025. The Company is managing cash flow carefully in anticipation of forthcoming Sukuk repayments, with strong operational cash flow and cash in hand ahead of the next Sukuk maturing in November 2016. Thereafter, no Sukuks are due for repayment before May 2018.

### 3.5 Balance sheet

Receivables amounted to SR 1,949 million (2014 SR 1,748 million) mainly due to extended payment terms of selected land transactions. Land and development projects and properties for lease account for SR 20,536 million (2014 SR 20,673 million), a modest drop as DAAR was a net seller of land during 2015.

Investment in the acquisition of land reduced to SR 390 million (2014: SR 2,000 million) on account of its sizeable land bank and to conserve cash. DAAR continued to invest in infrastructure developments of its existing land bank with SR 697 million being invested in 2015 (2014: SR 390 million).

Total assets decreased to SR 25,305 million (2014, SR 26,383 million) driven by the repayment of the 2015 Sukuk by SR 1,688 million in February 2015.

### 3.6 Credit rating

DAAR continues to maintain a stable outlook with a Ba3 credit rating from Moody's. Moody's rating reflects DAAR's strong positioning in its operating and business environment, as well as the Company having significant value in its assets. This includes a growing recurring income portfolio, a more conservative financial policy including pre-funding of future debt maturities.

As the current terms of DAAR's Sukuk program require the Company to maintain only one international credit rating agency, DAAR decided to discontinue rating services with S&P in December.

### 3.7 Outlook

The outlook for 2016 remains challenging on account of the Government's austerity measures, the outcome of which is difficult to predict. However, there are significant opportunities which could positively impact the market and the Company's performance. Due to the uncertainty of these market factors, management is unable to issue a guideline on performance until factors influencing trading become easier to predict.



## 4 Business Activities

Dar Al-Arkan Real Estate Development Company is a Saudi Joint Stock Company which started its business in 1994 under Commercial Registration No. 1010160195 and converted to a joint stock Company in 2005 under Ministerial decree 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.

### 4.1 The Company's Subsidiaries

#### 4.1.1 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 fully paid up capital of SR 500,000, registered in Riyadh under the Commercial Registration No. 1010247583, dated 28/3/1429 H (corresponding to 5/4/2008). The Company operates in the construction of residential and commercial buildings (construction, maintenance, demolition and restructuring) in the Kingdom of Saudi Arabia.

#### 4.1.2 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 fully paid up capital of SR 500,000, registered in Riyadh under the Commercial Registration No. 1010254063, dated 25/7/1429 H (corresponding to 28/7/2008). The Company operates in the 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.

#### 4.1.3 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 fully paid up capital of SR 500,000, 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.

#### 4.1.4 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 fully paid up capital of SR 500,000, 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.



#### 4.1.5 Sukuk Al-Arkan Company

Sukuk Al-Arkan Company is a limited liability Company, a wholly owned subsidiary of Dar Al-Arkan Real Estate Development Company with fully paid up capital of SR 500,000, registered in Riyadh under the Commercial Registration No: 1010274407, dated 11/10/1430 H (corresponding to 01/10/2009). The Company operates in the development, maintenance and management of real estate as well as land procurement and general contracting in the Kingdom of Saudi Arabia.

#### 4.1.6 Thawabit Investment Company

Thawabit Investment Company is a limited liability Company, a wholly owned subsidiary of Dar Al-Arkan Real Estate Development Company with fully paid up capital of SR 500,000, 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.

#### 4.1.7 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 fully paid up capital of SR 500,000, 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.

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

##### 4.1.8.1 Khozam Real Estate Development Company

Khozam Real Estate Development Company (Khozam) is established as a limited liability company with a total equity of 54,028,728 shares 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).

##### 4.1.8.2 Alkhair Capital

The Company owns a 34% stake in Alkhair Capital Saudi Arabia ("Alkhair") equivalent to 10,200,000 shares. Alkhair is licensed by Saudi Arabia's Capital Market Authority to deal as principal and agent with a total number of 30 million issued shares (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.

## 5 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:

### 5.1 Real Estate Development

The revenue of this division is derived from the sale of land and developed residential and commercial properties to individuals, corporate, investors and developers. During the fiscal year 2015 this division accounted for SR2,075 million, representing 93.85% of the Company's total revenues, as compared to SR2, 931 million, or 95.92% in 2014.

### 5.2 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 2015, revenues generated in Property Management and Leasing amounted to SR136 million and represented 6.15% of Group revenues, compared to SR125 million or 4.08% of total revenues in 2014.

### 5.3 Investment Activities

Revenue from investment activities represents income generated from strategic investment in companies, which the Company's management believes is complementary to Dar Al-Arkan's real estate development activities. During 2015, these investment activities were not significant to the Company's net profits as their contribution accounted for 3.56% of DAAR's net profit.

Furthermore, during 2015 the Company earned SR 1.1 million representing 0.3% of net income. This arose from income received from Islamic Deposits and compares to SR 47 million (8.2% of net income) in 2014.

## 6 Saudi Real Estate Sector Overview

### 6.1 The Saudi Economy

2015 witnessed a decrease in Government spending (actual expenditure was SR 975 billion). During 2015, the international price of oil dropped massively due to increased supply and a slowing world economy as well as been involved in the Yemeni war. However, Saudi Arabia maintains a very solid financial position with significant reserves and a strong balance with financial flexibility. The Government has announced an estimated 2016 spending budget of SR 840 billion demonstrating their continuing commitment to support the local economy and safeguard it from oil price fluctuations and the political situation in the region.

Government spending plans continue to focus on developing projects in education, health and housing as well as in security, social and municipal services, utilities, infrastructure and technology, scientific research as well as encouraging investment opportunities. Expansionary fiscal policies in the Kingdom are expected to further support a prosperous economy in the coming years, visible in all economic sectors, especially in the consumer related sectors.

### 6.2 Current Position of the Saudi Real Estate Market

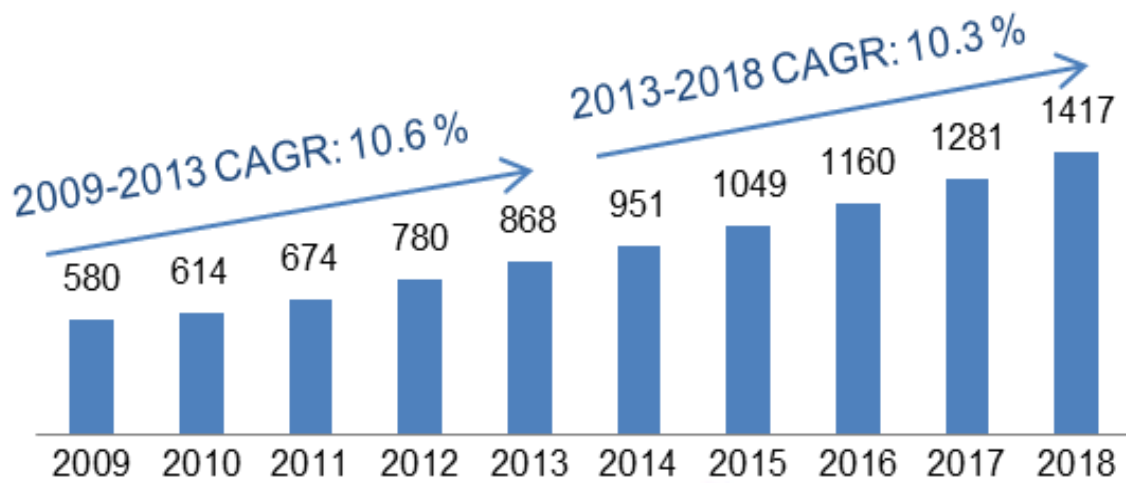
The Saudi real estate market is driven by:

- A healthy economy that is diversifying away from oil
- Family income increasing at a faster pace than inflation
- Government policies
- A rapidly growing population
- Age distribution with 70% of Saudis below the age of 35 years
- Urbanization
- Reduction in the average size of households
- Evolution in financing for homebuyers and developers
- Demand trends favoring apartment living compared with villas
- Land costs

Although in 2015 the Government decided to reduce project expenditure because the international price of oil dropped as a result of increased supply and a slowing world economy, together with the political situation within the region and the Yemeni war, Housing remains a Government priority driven by a significant gap between demand and supply of about a million units.

With strong growth in disposable incomes, citizens will continue to invest in their homes whether through renting or through mortgages.

### Personal disposable income (SR bn)



**(Source: Economist Intelligence Unit, SAMA)**

The Saudi population is young. About 70% is under the age of 35, 51% under the age of 25, (as of Feb 2012) and 32% is under the age of 15. According to a 2013 report by the International Monetary Fund, up to 1.6 million young nationals in the Gulf countries (Saudi Arabia, Bahrain, Oman, Kuwait, Qatar and the United Arab Emirates) will enter the workforce from 2013 to 2018. The young adult age group accounts for the largest proportion of the population at nearly 15.2 million, and therefore constitutes the demographic segment being targeted that is looking for a home purchase. Moreover, it is estimated the population growth rate will remain at 2.6% as a larger segment of the Saudi population enters the age of marriage.

The housing market will further benefit from a cultural change in falling household sizes. Al Ahli Bank in its "Saudi Housing Sector Overview" estimates that by 2020 the average household size will be 5.28 people as families become more concentrated compared to the more traditional "extended family" arrangements prevalent in the Kingdom.

As reported by Property Wire in November 2014, Riyadh accounted for an average of 27% of all residential and commercial permits issued across the Kingdom between 2003 and 2013. Moreover, the number of permits issued in the capital rose by 319% over this 10 year period, outperforming Saudi Arabia as a whole which experienced a 215% increase. The report highlights that despite rising development activity, demand for residential units in Riyadh continues to outstrip supply. Indeed, the City has a requirement for around 50,000 housing units per annum over the next five years with its current estimated housing inventory of just 1.15 million units.

The Ministry of Housing in a recent study has estimated that 200,000 units per year are needed across the Kingdom to satisfy this increased demand.

The following initiatives are at the forefront of the Government's strategy to boost the housing sector:

(1)The Government's initiative to establish the Ministry of Housing an allocation of SR 250 billion of the 2011 budget surplus to build 500,000 housing units. As the Ministry is responsible for development and distribution of funds, this program is being designed through a scheme where the infrastructure on Government owned land is built under contract with the Ministry and private developers are invited to participate in all vertical construction.

(2)The Real Estate Development Fund (REDF) grants interest-free loans to promote ownership and construction of housing units. The Real Estate Development Fund was established in 1974 and since then has granted 443,842 private loans as well as 2,488 investment loans with a total value of SR 120,144 million. This has resulted in the construction of 555,860 residences, according to information gathered from the Ministry of Housing.

(3)Developing the real estate legislative environment will provide an appropriate mechanism to encourage investment in the real estate sector. 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 out of the five mortgage laws, which include the Real Estate Financing Law, the Financial Lease Law, and the Supervision of Finance Companies Law. With positive steps taken towards applying these regulations by the end of 2014, SAMA has awarded 37 licenses to Saudi banks and financing companies to practice real estate financing according to the new legislation. A further 14licenseapplications are in process by SAMA. The impact of implementing these mortgage laws will be discussed later in this report.

(4)There have been many initiatives during 2015 and these are summarized as follows:

- The Minister of Housing ('MoH') has separated the REDF into an independent financial body. This enables the MoH to focus on housing solutions and strategy while the REDF focuses on financing.
- The REDF has developed a number of loan schemes.
- Negotiations are ongoing between SAMA, MoCI and RDEF to develop an off-plan sales policy.
- The MoH has announced that housing projects will be implemented in cooperation with developers. This increased private sector involvement is beneficial to DAAR.

The above factors will see sector investment benefit from economies of scale and more intensive development by accessing funds from both internal and external sources. Also foreign investment will be attracted as well as state support from partnerships between financiers, developers and state institutions to fulfill these large integrated real estate projects. Additionally, these projects will provide multiple socio-economic and environmental benefits that will enhance the sector's ability to meet market needs and balance demand and supply.



### 6.3 Update on Mortgage Legislation and its Anticipated Impact

A significant development occurred in the real estate market in 2012 with the 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 2014, SAMA had awarded 37 licenses to Saudi banks and financing companies to practice real estate financing according to the new laws. Further license applications are under process by SAMA.

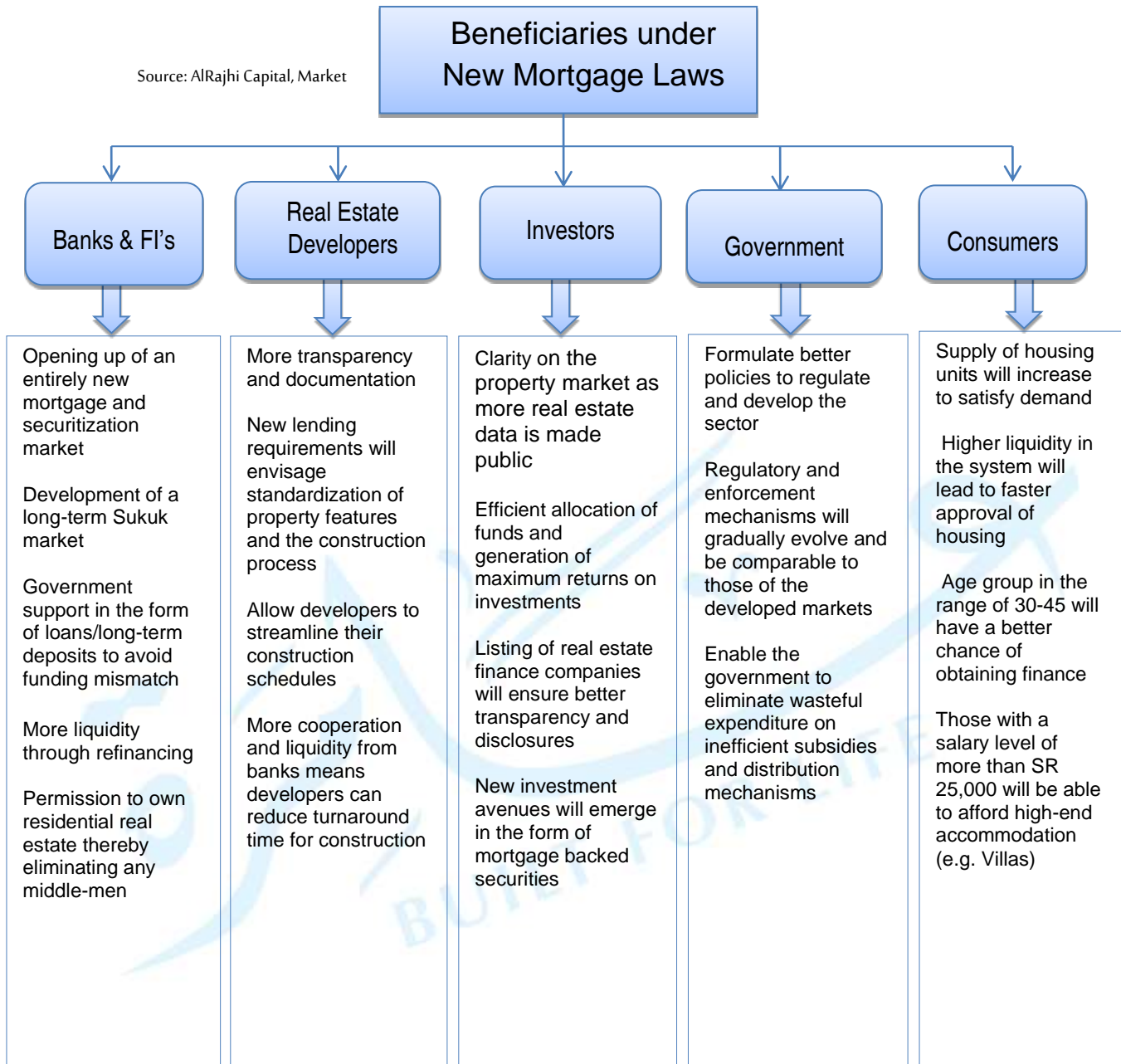
The new mortgage system is expected to bring about a significant improvement in the real estate sector by helping to balance the supply and demand of housing by promoting competition for the benefit of consumers. These changes are also likely to attract more investment into real estate development. Success 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. 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 homes through domestic lending with the added benefit of their rights being protected. If financial institutions such as the banks participate in mortgages, the impact of the Mortgage Law will extend to the broader economy in terms of increasing revenues of both real estate owners and banks as a result of improving 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 global demand for Sukuks 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.

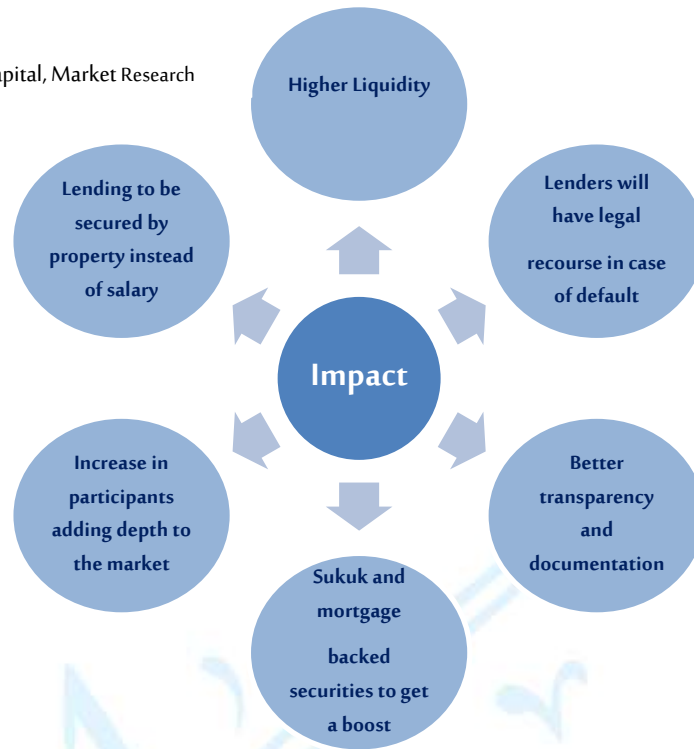
According to commercial bank estimates nationally, investment in the housing sector between 2011 and 2020 is anticipated to be SR 1.3 trillion (equivalent to US\$345 billion), which is to be used in the construction of 2.4 million housing units. This implies numerous opportunities will be available to developers and investors to meet the expenditure required by the Government and the private sector to bridge the demand-supply gap. Enactment of the Mortgage Law, under an accelerating growth in demand prevailing in the housing market, will help sentiment towards real estate investments it meets the requirements of modern life and takes into consideration the variables that may occur in the future.

Source: AlRajhi Capital, Market



## Likely impact of the new mortgage laws

Source: AlRajhi Capital, Market Research



## 7 Company's Business Model

The Company adopts a flexible business model aimed at maximizing the growth of the Company's assets and profits. Therefore, the Company invests significant 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 large urban centres, where purchasing power is higher, and an increase in value is achieved at each development stage. The development process goes through a series of well-defined steps which ensures the value-add is maximized at each stage as follows:

Development stage		Input	output
1	Sourcing land	<ul style="list-style-type: none"> <li>Criteria of land selection and investigating legal ownership of land</li> <li>Purchasing of land</li> <li>Investment in land</li> <li>Land investment proposal with feasibility study</li> </ul>	A legally owned asset with development potential through a feasibility investment proposal
2	Project planning	<ul style="list-style-type: none"> <li>Organisation of the project</li> <li>Setting out the strategy and procedures of project implementation</li> <li>Establishing the strategy and procedures of project management</li> <li>Allocation of resources</li> </ul>	An integrated project structure underlying allocation of resources and an effective plan of action
3	Site development	<ul style="list-style-type: none"> <li>Designing and planning;</li> <li>Obtaining the required permissions;</li> <li>Earth work and landscaping</li> <li>Excavations and backfilling</li> <li>Land phasing</li> </ul>	Semi-developed land plots
4	Development of Infrastructure	<ul style="list-style-type: none"> <li>Materials and technology</li> <li>Road and sidewalk pavement</li> <li>Plantation</li> <li>Setting of different service networks</li> </ul>	Fully developed lots
5	Development of superstructure	<ul style="list-style-type: none"> <li>Designing</li> <li>Construction plan</li> <li>Materials and technology</li> <li>Commissioning and correction of potential defects</li> </ul>	Semi-finished Residential unit
6	Finishing and decoration	<ul style="list-style-type: none"> <li>Shaping and covering of housing and residential utilities</li> <li>Ceramic, mechanical and electrical works</li> <li>Woodwork</li> <li>Plaster and painting work</li> <li>Internal and external decoration work</li> </ul>	Completed residential/commercial unit ready for sale or lease
7	After-sales services	<ul style="list-style-type: none"> <li>One-year free maintenance</li> <li>Ten-year construction warranty</li> <li>Providing customers with plans of the residential units specifying all building components to facilitate preventive and corrective maintenance when required</li> <li>Carrying out periodical field surveys to ensure customer satisfaction</li> </ul>	Residential or commercial unit with guaranteed quality

The Company deploys 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:

- (1) the development and sale of land,
- (2) the development and sale of residential and commercial units and
- (3) the 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:

## 7.1 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.

## 7.2 Vertical Development

### ***Superstructure/Building Development***

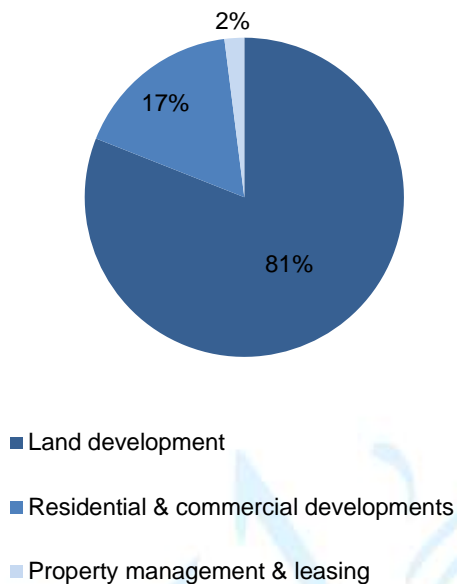
- Developing and building anchor projects that not only bring in direct revenue, but also have the greatest impact on the value of the surrounding community
- Anchor projects directly developed by DAAR may be a) "for sale" projects that help inject cash used to minimize exposure (residential units) or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



## 8 The Strategy

### 8.1 Diversification Strategy

**2007 – Asset mix**

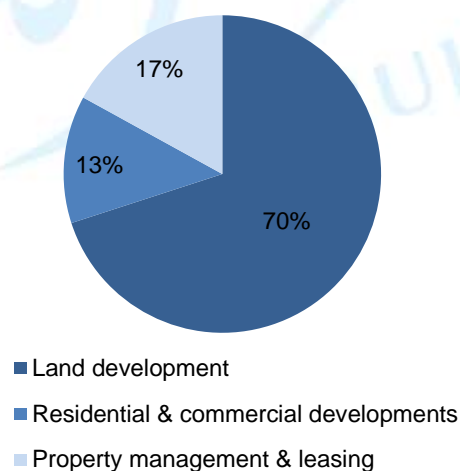


Dar Al-Arkan remains true to its strategic focus of developing master-planned communities, homes, shopping and business centers for the fast growing Saudi Arabian middle-income consumer segment.

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.

**2015 – Asset mix**



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

### 8.2 Residential and Commercial Development is the Cornerstone of our Growth

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 extensive land assets we own. In line with our strategic goal, DAAR has introduced a new master-planned development project named “Juman” in Dammam for 8.2 millionm<sup>2</sup>. The Juman development will enable DAAR to develop a premium waterfront city infrastructure with residential to commercial land and properties for sale and lease in coming years.

We will also continue to look for new opportunities to develop master-planned communities in top tier cities in the Kingdom

### **8.3 Growing Property Management and Leasing**

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

Occupancy in leased properties in 2015 was amounted to SR 3,6 billion. Key customers continue to demand new units in DAAR properties including one of the largest mega malls in Riyadh in addition to residential and commercial assets in the cities of Riyadh, Makkah and Madinah. The company will continue benefiting from its integrated projects in developing residential and commercial assets for rent in Shams Al- Arous along with a housing compound in Shams ArRiyadh, as well as seeking earnestly to support the asset portfolio with leasable commercial and residential properties that meet the Company's investment criteria.

### **8.4 Strategic Real Estate Investments Supporting our Business Model**

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

### **8.5 Conservative funding strategy**

The Company has successfully diversified its funding and improved its maturity profile to support its business model and reduce liquidity risks. DAAR will pursue further diversification to support strategic changes in our business. Going forward, project and leased 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 Islamic Sukuk market started in 2007 and the Company is fully committed to maintaining this relationship going forward. This includes diversifying into other local Sukuk markets. DAAR is moderately leveraged and plans to improve current leverage ratios.

Currently DAAR enjoys a BA3 rating from Moody's and an AA3/P1 credit rating from RAM. The Management is committed to maintaining relationships with credit agencies and takes all steps to improve performance for further upgrades.

## 9 Residential and Commercial Development

### 9.1 DAAR is One of the Largest Private Sector Developers in the Saudi Real Estate and Construction Sector

DAAR is one of the largest private sector developers in the real estate and construction sector in the Kingdom. DAAR is a major leader in the investment, development and financing of real estate in the Kingdom across all sectors including substantial master-planned communities, mixed-use residential and commercial developments, retail development and joint ventures.

### 9.2 Juman Project



The project is located in the Eastern Province overlooking Tarout Bay. It is based on the reclamation of 8.2 million m<sup>2</sup> of semi submerged land, based on an agreement dated 22/04/2014 with the owners. Under the terms of this agreement, DAAR is the development manager of the project and acquired an 18% stake in the land.

The project will be a master-planned community with diverse land use, including 2,706,970m<sup>2</sup> for residential, 395,990m<sup>2</sup> for hospitality, 1,156,722 m<sup>2</sup> for mixed use (retail and residential), 242,312 m<sup>2</sup> for a regional mall and 717,872 m<sup>2</sup> for office, medical, educational and other uses.



During 2015 the master-plan was developed to a pre-concept stage according to the development strategy based on the market and the economic feasibility studies conducted by GRMC. The bathometric surveys were completed and concluded that (73%) of the land area is only 1,1m below the water level. This conclusion enables DAAR to reduce costs and accelerate the development of the project's infrastructure. On the other hand, discussions continue with various authorities including MoMRA and Damam Amana to better introduce the project and obtain their feedback and guidance.

### 9.3 Shams ArRiyadh Project



Located in the north-west of Riyadh in the Al-Dariya district, the Company is developing Shams Ar-Riyadh, 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 meters and targets the middle to upper segment of the market. The project's notable features include elevated land giving panoramic views over the natural valley of Wadi Hanifa, with added benefits of wide roads and pedestrian sidewalks. There is space designated for different sporting, social and cultural activities as well as other public amenities and facilities.

The discussions with the relevant authorities to approve the master plan of Shams ArRiyadh project, have made a remarkable success as the master plan got the support of ADA in December 2015, yet some issues related to development basis are still pending and under negotiation end of 2015.

The joint venture with Dar Al-Bayan real estate development has made a significant progress in developing Shams ArRiyadh gated compound. The feasibility study completed and was used as

a basis for the detailed design works which were awarded to DWP, an engineering consulting firm based in Dubai.

During 2015, discussions with the Ministry of Housing created a residential village concept within Sham ArRiyadh. A market and feasibility analysis was undertaken based on meetings with the Ministry of Housing. Based on the conclusions of this analysis, the product mix was modified and design adaptations were made.

A concept master plan was commenced during 2015 for the construction of a Gated Compound targeting the Expat community. This followed various pre concept design alternatives that were prepared with the master plan modified accordingly. The joint efforts for the design and construction of this component are ongoing.

During 2015, there was also focus on the Urban Center of Shams Ar Riyadh, which will be positioned as the Northwestern Gate of the Kingdom's Capital. The Urban Center will take advantage of ADA's plans of creating alternative urban centers around Riyadh. During 2015 this strategy was further developed and the market and feasibility study commissioned is continually referenced to validate the direction. The design of this component has been further developed to include retail, hospitality, healthcare, mixed use residential and commercial areas as well as a convention center, an iconic tower and a creative and media hub. Conversations are ongoing with anchor tenants and investors to insure the long term viability of the scheme.

By the end of 2015, 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 1.8 million square meters of project land area was sold to Saudi Basic Industries Corporation (SABIC). This sub developer started construction in 2014 and during 2015 considerable progress has been made.

Shams Al-Riyadh by Numbers*	
Detail	Number
Total project's remaining area	3.2 million (m <sup>2</sup> )
No of Residential units to be leased	13,574 units (Apartments)
No of Residential units to be sold	2,551 units (Villas)
Commercial land to be sold	489,000 (m <sup>2</sup> )
Percentage of completed Infrastructure **	47%

\*Based on current development plan.

\*\* Excluding land cost.



#### 9.4 Shams Al-Arous Project



Shams Al-Arous is the Company's third master-planned community project and is strategically located approximately 12 kilometres east of downtown Jeddah. The community comprises an area of approximately three millionm<sup>2</sup> of fully developed land on the extension of Palestine Road, one of the main commercial roads in Jeddah. The project was linked to the Palestine Road by a 52mwide and a four km long road with five lanes in each direction. 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 [FAR] further contributed to the demand for real estate in the project area. During the years 2012 and 2013, the Company sold developed residential land plots of the project. In 2014 land sales progressed on the project with 338, 408 m<sup>2</sup> sold to sub developers and brokers. In 2015 planning and design of additional product for the Shams Al-Arous development is ongoing.

Shams Alarous in Numbers*	
Detail	Number
Total project's net remaining area	938,000 (m <sup>2</sup> )
Residential area to be sold	773,000(m <sup>2</sup> )
No of Residential units to be leased	25,733units (Apartments/Villas/Townhouses)
Commercial space to be leased	190,000 (m <sup>2</sup> )
Percentage of completed infrastructure	100%

\*Based on current development plan.

## 9.5 Al-Tilal Project



The Al-Tilal project is located in south west Medina, on Prince Sultan Road, one of the main roads in Medina, within the Alharam zone boundaries, 9 km from the Prophet's Holy Mosque and 8 km from the Quba Mosque. The project comprises a total land area of 2.2 millionm<sup>2</sup> which has been developed into subdivided plots. In addition, 499 villas were built and partially sold along with the majority of the residential and commercial developed land plots. During 2014, the company had further sold 10,082 m<sup>2</sup> of developed plots to retail customers. In 2015 planning and design of additional product for the Al-Tilal development is ongoing.

Al-Tilal in Numbers*	
Detail	Number
Total project's net remaining area	438,824 (m <sup>2</sup> )
Residential area to be sold	439,000 (m <sup>2</sup> )
Total number of villas	499
Residential space GLA	87,000 (m <sup>2</sup> )
Villas for leasing	279
Commercial space to be leased (m <sup>2</sup> )	4,400 (m <sup>2</sup> )
Percentage of completed Infrastructure	100%

\*Based on current development plan.



## 9.6 Qasr Khozam 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 and is headquartered in Jeddah. Khozam capital amounts to SR 540 million, of which Jeddah Development and Urban Regeneration Company owns 49% contributed by the provision of 252,040.45 m<sup>2</sup> 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 regenerating and developing slum areas in Jeddah. The initiative enjoyed generous patronage from the late Custodian of the two Holy Mosques King Abdullah bin Abdulaziz, who laid the foundation stone for this ambitious development project.

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 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.

#### 9.7 Real Estate Market and its Impact on Dar Al Arkan in 2015

A climate of uncertainty and negative market sentiment became apparent in the second half of 2015 due to fluctuations in oil prices and ongoing regional and global political and economic instability.

In late 2015, Saudi Arabia announced a record budget deficit of SR 367 billion (\$97.9 billion), its second deficit year in a row, and cut investment spending by almost two thirds as it wrestled with oil price and supply issues.

In addition, there have been recent declines in real estate indicators (average price per square meter and number of transactions) which have continued since the beginning of the second quarter of 2015. This reflects the continued exposure of the real estate market to a number of factors and variables including the implementation of the fees on vacant lands within the urban boundaries of cities and provinces. A number of these factors will continue to have an impact on real estate market performance in the Kingdom during 2016.

Due to the above DAAR adopted a conservative development strategy in 2015 with regards to its pipeline of projects. Excellent progress was however made in respect of Master Plan design development for the Shams Arriyadh and Juman projects as follows:

- **Shams ArRiyadh:**

Infrastructure design has been completed and is ready for tendering. Sub Master Plan components:

- Shams ArRiyadh Gated Compound: concept design stage is progressing.
- Residential Village: feasibility study, design brief, concept design and RFP are ready for tendering.

- Mixed Use and Commercial Zone: design and reallocation of BUA is being analyzed.
- Shams ArRiyadh Mosque: detailed design stage.

Estimated timelines for securing planning approvals and commencing construction are as follows:

- Planning approval in the 4<sup>th</sup> Quarter, 2016.
- Commencement of construction in the 1<sup>st</sup> Quarter, 2017.

- **Juman:**

Feasibility study completed by GRMC, Master Plan preliminary study completed, Concept Master Plan, and animation and tender documents of the Master Plan are ready to be awarded.

The bathometric surveys were completed and concluded that (73%) of the land area is only 1,1m or less than 70 cm below the water level.

The approval process from the respective Municipalities is advancing for the projects. DAAR is keen to ensure that any development approval given by the Planning Authorities provides a strong financial base and necessary flexibility to manage the substantial investment required for the infrastructure and ongoing superstructure for the projects.

Estimated timelines for securing planning approvals and commencing construction are as follows:

- Planning approval in the 1<sup>st</sup> Quarter, 2017.
- Commencement of infrastructure works in the 2<sup>nd</sup> Quarter, 2017.



## 10 Property Management and Leasing

### 10.1 Overview

2015 marked another year of progress, albeit slower than hoped for growing recurring income. At the end of 2015, revenue from leased assets amounted SR 136 million representing 4.1% of total income, this compares to 6% of the Company's total revenue.

Managing large scale communities and providing quality, value-for-money services is one of the key elements in positioning the Property Management and leasing service to take increased share of the Kingdom's growing residential community market.

One of the key drivers of growth and this service positioning has been the increased focus on the corporate and Government segments. With these segments we are experiencing significant demand to lease modern, quality properties in convenient locations. This fits with our ongoing strategy of developing and managing planned communities throughout the Kingdom.

During the year the department has improved operations. New reporting procedures have been implemented for asset performance management and new processes have been introduced for rent reviews, property delivery and handover and asset condition surveys. All of which are intended to streamline the management and leasing functions and increase the productivity and efficiency of the service.

Service efficiency has been enhanced further by structuring the department around the three key functions of Property Management, Lease Management and Facilities Management, together with appropriate KPIs for each function.

### 10.2 Key Events in Property Management and Leasing

#### 10.2.1 Major Leasing Agreements Concluded in 2015

##### 10.2.1.1 Al Masif



The compound contains 26 villas located to the North of Riyadh city. The compound is still leased to one of the companies working in Riyadh Metro project. The speed of leasing again reflects the high demand for good quality properties for the corporate segment.

#### 10.2.1.2 Al Qasr Community

A number of leases were signed at Al Qasr Community during 2015 with large corporate and Government tenants. It was pleasing to note that many of these leases were signed with existing tenants, who are expanding their presence in Al Qasr. These agreements included an additional of 38 residential unit.

#### 10.2.1.3 Al Qasr Mall

2015 saw an expansion of leasing activity, with lease agreements being finalized with a range of well-known brands including Jammoly World, Heleume Perfumes, Matlan Cloths and Desndat for Watches. A total of 65,391 m<sup>2</sup>, or 267 units, were leased in 2015.

#### 10.2.1.4 Al Tilal

The Al Tilal community is another location that is experiencing good demand from the corporate and Government sectors. A total of 105 villas have been leased to date.

### 10.3 Leased Area Under Management

The scale and range of the property management service can be judged from the following table which lists the lease portfolio by development and property type.

Leased assets under Company's management grew to 726,000 m<sup>2</sup> by the end of 2015.

Development	Leasable Area (m <sup>2</sup> )	Residential	Commercial	Office
Al Qasr Community	512,504	2,447 apartments 102 villas	348 showrooms	65 offices
Al Qasr Mall	78,496		350 shops, stores and outlets	
Azizia Towers	40,472	276 apartments	6 showrooms	
Al Masif Gated Community	6,838	26 villas		
Al Tilal	87,025	279 villas		
King Fahd Road Building	1,107			1 office building
<b>Total</b>	<b>726,716</b>			

## 10.4 Description of the Leased Asset Portfolio

### 10.4.1 Al Qasr Community



Al Qasr is Dar Al Arkan's first planned community in the Kingdom. Situated in Al-Swaidi district of Riyadh its modern, spacious layout is proving to be popular with middle income families, Government and corporate institutions. Its location adjacent to King Fahad Road provides good access to key Government agencies and the central business district.

With a leasing mix of almost 3,000 units (2,447 apartments, 102 villas, 348 showrooms and 65 office units) the Al Qasr Community is a leading example of master-planned communities in the Kingdom.

Families enjoy the spacious urban design, parks, schools and shops. Further significant investment is being made in schools and Government administrative offices, which is increasing the attraction of the community as a place to live and work.

During 2015, Al Qasr experienced significant demand from the corporate and Government sectors and a large number of leasing enquiries are being processed.

Current tenants of Al Qasr include the Ministry of Foreign Affairs, Military Hospital in Riyadh, Ritz Carlton (staff accommodation), Boudl Furnished Apartments and Al Hammadi Hospital (staff accommodation).



#### 10.4.2 Al Qasr Mall



The state-of-the-art Al Qasr Mall provides an important retail and entertainment destination for the residents of Central, Southern and Western Riyadh. With a total area of 250,000 m<sup>2</sup>, 350 shops, family entertainment and food and beverage outlets, the Mall offers visitors a modern, spacious environment that provides a convenient location for shopping, socializing and family leisure.

Its wide range of retail, food and entertainment includes famous brands such as Koton, Al Homaidi, Etam, H&M, Mothercare, Swatch, Boots, Vision Express, Foot Locker, Evans, Next, Mango, Suit Blanco, Mac, Blue Age, Nayomi, SportsOne, CityMax, Red Tag, E-Max, Lindex, Carolina Box, SportsSac, Cole Haan, Coach, Shoe Express, Sun Sand & Sports.

Throughout 2015 the Mall continued to focus on providing a unique experience to local shoppers and young families, as well as providing events and entertainment that attract families from across Riyadh.

Al Qasr Mall hosted a series of social and health awareness events, including events in smart diet, and the International Day for Disability, Dental Health and Awareness events on the harms of drugs. These events represent a part of the ongoing community and social contributions of the Mall.

#### 10.4.3 Azizia Towers



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

The development comprises 7 Towers, including 3 Towers at the front overlooking Prince Sultan Street each with 12 residential floors and 4 Towers at the rear, each with 11 residential floors.

Azizia Towers comprises a total built up area of 76,486 m<sup>2</sup>, which includes 276 apartments with a net residential area of 40,472 m<sup>2</sup>, and 6 showrooms with a total area of 2,135 m<sup>2</sup>. The Towers are leased to King Abdullah Medical City.

#### 10.4.4 Al Masif



The Al Masif gated community represents another investment in providing distinctive, quality residential environments to the corporate segment.



Located in the Al Masif neighborhood of North Riyadh, the gated community comprises 26 duplex villas surrounded by green space, with a children's play area and a swimming pool. In June 2014, Al Masif was leased to NESMA.

#### 10.4.5 Al Tilal



Al Tilal is located in the South West of Madinah, on Prince Sultan Bin Abdulaziz Road, within the Holy Prophet Mosque Haram area. Al Tilal is a comprehensive urban development, on 2.2 million m<sup>2</sup>. of land, with 499 villas, provision of land for schools, mosques and parks and with developed land plots for sale in the remaining area.

The lease portfolio comprises 279 villas, which have been targeted previously to individual tenants. During 2015 leasing activity was directed to the corporate and Government segments, both of which are growing in importance in the Madinah area. Further improvements are being planned also to the public areas and street- scape.

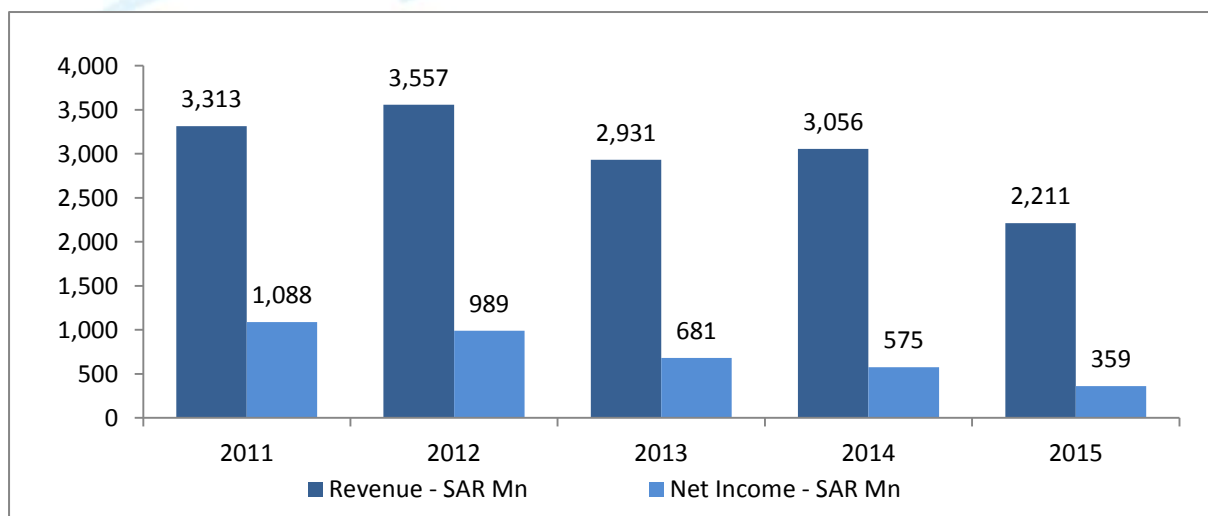
## 11 The Financial Results

### 11.1 The Income Statement for the Fiscal Years 2011 to 2015

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)	2015	2014	2013	2012	2011
Operations' revenue	2,211,349	3,056,060	2,931,168	3,557,072	3,312,510
Cost of revenue	(1,228,117)	(1,756,805)	(1,778,097)	(2,163,366)	(1,943,497)
Gross profit	983,232	1,299,255	1,153,071	1,393,706	1,369,013
Principal activities expenses	(243,824)	(279,341)	(182,692)	(209,279)	(118,594)
Net income from principal activities	739,408	1,019,914	970,379	1,184,427	1,250,419
Financing expense	(384,801)	(493,294)	(313,959)	(264,086)	(212,809)
Net other Income	13,875	62,895	42,570	93,626	99,699
Net income before Zakat provisions	368,482	589,515	698,990	1,013,967	1,137,309
Zakat provisions	(9,325)	(14,820)	(17,528)	(25,430)	(49,374)
Net income	359,157	574,695	681,462	988,537	1,087,935
Earnings per share	0.33	0.53	0.63	0.92	1.01

**Total revenue and net income changes from 2011 to 2015**



## 11.2 The Balance Sheet for the Fiscal Years 2011 to 2015

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.

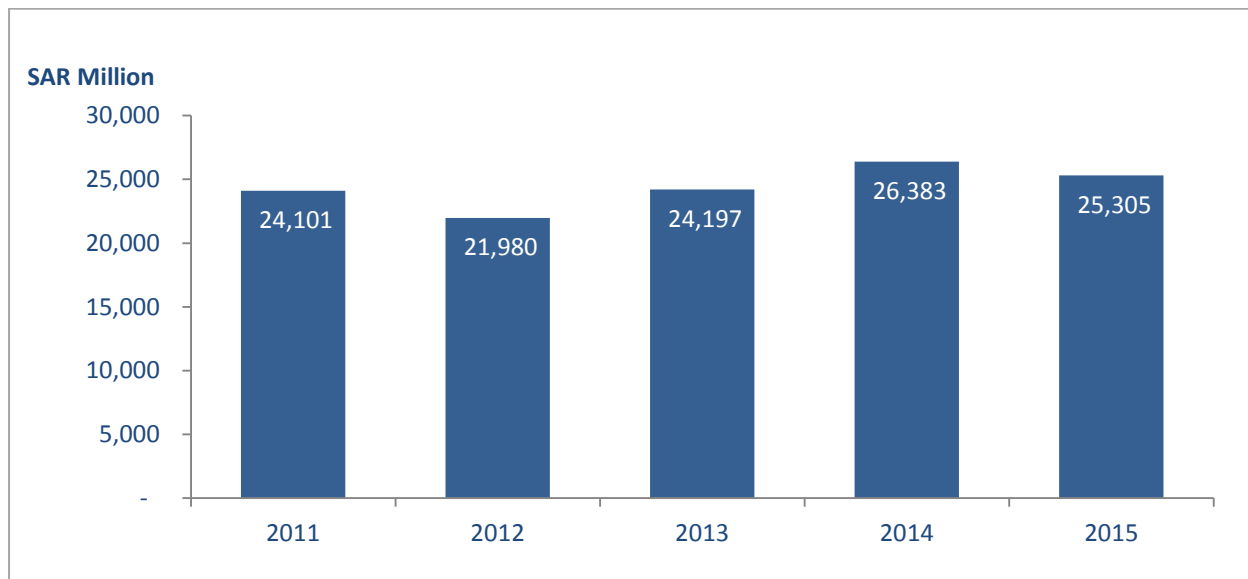
Item (in SR '000s)	2015	2014	2013	2012	2011
<b>Assets</b>					
<b>Current Asset</b>	4,361,742	5,668,959	5,099,412	3,552,478	6,411,458
<b>Non-current Asset</b>	20,875,085	20,642,308	19,023,550	18,350,137	17,606,697
<b>Fixed Asset</b>	68,416	71,279	74,370	77,674	82,604
<b>Total Asset</b>	25,305,243	26,382,546	24,197,332	21,980,289	24,100,759
<b>Liabilities</b>					
<b>Current Liabilities</b>	2,596,980	3,337,922	2,027,894	2,362,996	5,741,282
<b>Non-Current Liabilities</b>	4,781,590	5,477,108	5,176,617	3,305,934	2,771,914
<b>Total Liabilities</b>	7,378,570	8,815,030	7,204,511	5,668,930	8,513,196
<b>Equity</b>					
<b>Capital</b>	10,800,000	10,800,000	10,800,000	10,800,000	10,800,000
<b>Statutory reserve</b>	978,300	942,384	884,914	816,768	716,768
<b>Retained earnings</b>	6,148,373	5,825,132	5,307,907	4,694,591	3,806,054
<b>Total shareholders' Equity*</b>	17,926,673	17,567,516	16,992,821	16,311,359	15,322,822
<b>Total Liabilities and Shareholders' Equity</b>	25,305,243	26,382,546	24,197,332	21,980,289	24,100,759
<b>Book value per share**</b>	16.60	16.27	15.73	15.10	14.19

\*Total shareholders' Equity for the year 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 2011 to 2015



### Shareholders' equity and share book value changes from 2011 to 2015



\* The year 2011 excluded non-controlling interest from Dar Al-Arkan's subsidiaries of SR 265 million

### 11.3 Results of Operations

The following table compares the results of operations for 2015 and 2014.

Item (in SR '000s)	2015	2014	Change (+or -)	Change %
Revenues	2,211,349	3,056,060	-844,711	-27.64%
Cost of revenues	1,228,117	1,756,805	-528,688	-30.09%
Gross Profit	983,232	1,299,255	-316,023	-24.32%
Principal activities expenses	243,824	279,341	-35,517	-12.71%
Net income from principle activities	739,408	1,019,914	-280,506	-27.50%
Financing charges	384,801	493,294	-108,493	-21.99%
Net other Income	13,875	62,895	-49,020	-77.94%
Net Income before Zakat provisions	368,482	589,515	-221,033	-37.49%
Zakat provisions	9,325	14,820	-5,495	-37.08%
Net Income	359,157	574,695	-215,538	-37.50%
Earnings Per Share	0.33	0.53	-0.20	-37.50%

#### 11.3.1 Revenues

Total revenues were SR 2,211 million in 2015, compared to SR 3,056 million in 2014, representing a decrease of 27.64%. The decline is mainly due to the decrease in land sales.

Rental revenues increased by 9% to reach SR 136 million during 2015 compared to SR 125 million in 2014 due to the growing occupancy ratios of the Company's residential and commercial properties assigned for lease in Riyadh and Madinah regions.

Company did not earn any revenue from the sale of residential properties in 2015 due to the Company's renting strategy. This compares to SR 8 million in 2014.

Revenues from the sale of land were SR 2,075 million in 2015 compared to SR 2,923 million in 2014, representing a decrease of 29% mainly due to the lower area of land sold and lower average selling price per square meter attributable to location and development status of the properties sold compared to 2014. The total area of land sold during 2015 was 3.14 million m<sup>2</sup>, a small decrease on 2014 when 3.23 million m<sup>2</sup> 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 full payment of the transaction value is received.



### 11.3.2 Cost of Revenue

Cost of revenue accounted for SR 1,228 million in 2015, representing 55.5% of total revenues compared to SR 1,757 million in 2014 or 57.5% of total revenues. This small decrease in the cost of revenue is mainly due to the higher gross profit generated by land sales revenue in 2015 compared to 2014.

### 11.3.3 Selling and General Administrative Expenses

Selling and general administrative expenses were SR 204 million in 2015 compared to SR 237 million in 2014, representing a decrease of 14%. The decrease is primarily due to lower professional and consulting services.

### 11.3.4 Financing Charges

Net financing charges were SR 385 million in 2015 compared to SR 493 million in 2014, representing a decrease of 22% amounting to SR 108 million. This decrease is primarily attributable to the successful repayment of US\$ 450 million of high cost Sukuk in February 2015.

### 11.3.5 Net other income

Net other income was SR 14 million in 2015 as compared to SR 63 million in 2014. The decrease is due to lower amount of deposits compared to the higher amount of deposit in 2014, due to the cash balance earmarked for the planned repayment of Sukuk IV in February 2015..

### 11.3.6 Net Income

Net income in 2015 was SR 359 million compared to SR 575 million in 2014. Earnings per share were SR 0.33 in 2015 compared to SR 0.53 in 2014. In conclusion from the above, the decrease in net income was driven by lower land sales and lower non-operating income in spite of a decrease in selling and general administrative expenses and finance costs, and relatively higher gross margins achieved on revenues compared to 2014.

## 11.4 Liquidity and Capital Resources

As of 31 December 2015, we had cash and cash equivalents of SR 1,001 million compared with SR 2,310 million as at 31 December 2014.

#### 11.4.1 Cash Flows

The following table sets out the Company's cash flows for the financial periods 2014 and 2015:

(in million SR)	2015	2014
<b>Funds from Operating Activities</b>	491	333
<b>Funds (used in)/ from Investing Activities</b>	(449)	(1,966)
<b>Funds from/ (used in) Financing Activities</b>	(1,351)	1,664

Net cash flow from operations stood at SR 491 million in 2015 compared to SR 333 million in 2014. The positive variance is mostly related to the decrease in developed land and other working capital movements in 2015.

The Company's net investments in land and project development have primarily led to an overall outflow of cash in investing activities of SR 449 million in 2015.

The cash outflow from financing activities of SR 1,351 million was primarily due to repayment of Sukuk IV in February 2015 amounting to SR 1,523 million

#### 11.4.2 Projects and Investment Expenditures

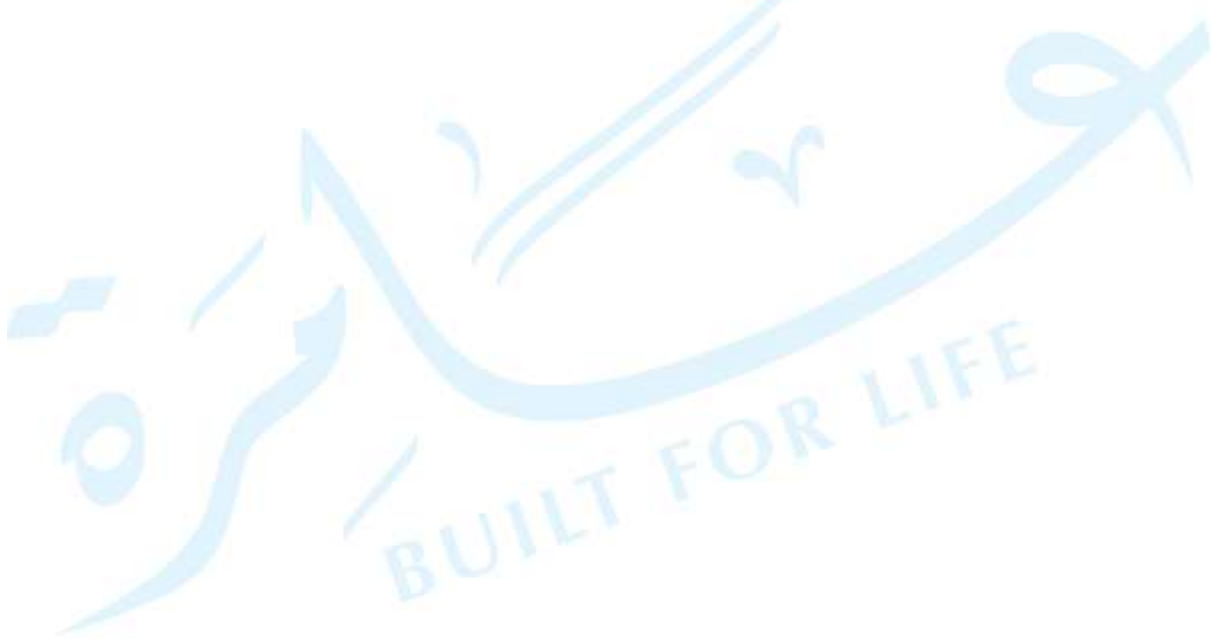
Our priorities for expenditure on projects include continuing to build integrated residential developments, investing in developing land and purchasing and developing income generating properties. During 2015, we spent SR 1,088 million on land purchases, acquisition of rental properties and development 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.

## 12 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, the surplus and liquidation tests which will indicate the eligibility for distribution or not, and the implementation of the profit 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.



## 13 The Company's Financing Program

### 13.1 Financing Strategy

DAAR's Financial Strategy is still in line with the vision of 2007, where the company primarily focused on matching its project investment cycle of three to five years with the maturity profile of its funding. The Company continues to seek diversification in its sources of funding so it is not solely dependent on local banks and capital markets. The Company has successfully implemented its funding strategy which is evident from the issuance of a series of local and international Shariah-compliant Sukuks over the last seven years; the Company issued six international and one local Sukuk.

Total funds raised from Sukuk amounted to SR 12.8 billion, SR 8.5 billion of which has already been repaid as of end of 2015, whereas the remaining SR 4.3 billion is due for maturity within the next 1-4 years. Pursuant to its diversification strategy, the Company has successfully established good relationships with local, regional and international banks where it has achieved medium and long term financing mostly through Islamic Murabaha or Ijarah facilities for general corporate purposes. The total outstanding amount at the end of 2015 was SR 2.07 billion.

The ratio of International Islamic Sukuks to total financing amount as of the end of 2015 was approximately 67%, whereas the Murabahas and Ijaras with local and regional banks were 33%. 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 has also built up a portfolio of rental properties, where these income-generating assets can be offered as security for loans from financial institutions. At the same time, Dar Al-Arkan believes in the relationship it has established with international Sukuk investors over the last 7-8 years and given the excellent track record, it will continue maintaining this relationship by accessing the domestic and international capital markets.

### 13.2 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 2015.

#### 13.2.1 Indebtedness details & Increase in financing at the end of 2015

By the end of 2015, the Company raised total net financing of SR 605 million. The Company successfully repaid the fourth Sukuk of SR 1.5 billion, and also repaid some of the local bilateral Murabaha facilities amounting to SR 550 million.



Bilateral Islamic Facilities in Million SR	Settlement	Original Amount	Starting Date	Opening Balance	Addition During 2015	Paid During 2015	Closing Balance	Maturity
Murabaha: Local Bank ANB	Quarterly settlement	400	12 Nov 2013	267	-	134	133	31 Dec 2016
Murabaha: Local Bank ANB	Half yearly settlement	130	02 Feb 2015	-	130		130	31 Oct 2017
Murabaha: Local Bank MUSCUT 1	Quarterly settlement	100	11 Oct 2011	40	-	20	20	31 Dec 2016
Others	Bullet	88	28 Sep 2011	88		88	-	8 Sep 2015
Murabaha: Local Bank MUSCUT 2	Quarterly settlement	175	26-Mar 2015	-	175	12	163	30 Sep 2022
Murabaha: Local Bank ALinma	Quarterly settlement from Q2 2016	300	11 Jun 2015		300		300	31 May 2027
Ijarah: International Banks	Quarterly settlement	1427	11 Jul 2015	1,427	4	119	1312	31 Jul 2020
Murabaha: GCC Bank	Quarterly settlement	112.5	07 May 2013	56	-	37	19	12 Jan 2016
<b>Gross Total</b>		<b>2732.5</b>		<b>1,878</b>	<b>609</b>	<b>410</b>	<b>2077</b>	

The ratio of gross debt to capitalization stood at 26% at the end of 2015. The closing cash balance decreases to SR 1 billion at the end of 2015 compared to SR 2,310 million at the end of 2014.

#### Summary of the Murabahas and Sukuks

Maturity	In million Saudi Riyals		
	Outstanding balance	Murabaha	Sukuk
2016	1543	418	1,125
2017	299	299	-
2018	2035	347	1,688
2019	1865	365	1,500
2020 onwards	648	648	-
<b>Total</b>	<b>6,390</b>	<b>2,077</b>	<b>4,313</b>

### 13.3 Overview of the Sukuk Issuances and Repayments in 2015.

#### 13.3.1 The Repayment of the Fourth Sukuk

In 18 February 2015 Dar Al Arkan repaid SR 1.51 billion which was the balance of the Islamic fourth sukuks. A partial payment of these sukuks were done during the course of fourth Quarter 2014 where Dar Al-Arkan concluded the purchase of SAR 164mn, which is 9.7% of the SR 1.68 bn Islamic fourth Sukuk.



## 14 Related Party Transactions

During 2015, the Company entered into transactions with related parties. The Company follows the same procedures as with other non-related parties. These transactions are not limited to certain duration and are presented in the AGM to obtain the required approvals for the current year and the coming one. Following is a brief of these transactions:

### 14.1 Saudi Home Loans "SHL"

In the ordinary course of business, the Company enters into transactions with Saudi Home Loans "SHL". SHL is a related party and the Company owns a 15% equity stake equivalent to 30 million shares out of 200 million issued shares. The common Board members between SHL and Dar Al-Arkan are namely: Mr. Yusuf Abdullah Al Shelash, Mr. Hathloul Saleh Al Hathloul, Mr. Abdullatif Abdullah Al Shelash and Dr. Abdulrahman Hamad Al Harkan. 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 2015, there were no sales transactions with SHL, however there was an opening balance of SR 143,000 that was due from transactions recorded in prior years, which is fully settled in 2015 resulting in a nil balance due to or from this related party.

### 14.2 Khozam Real Estate Development Company (KDC)

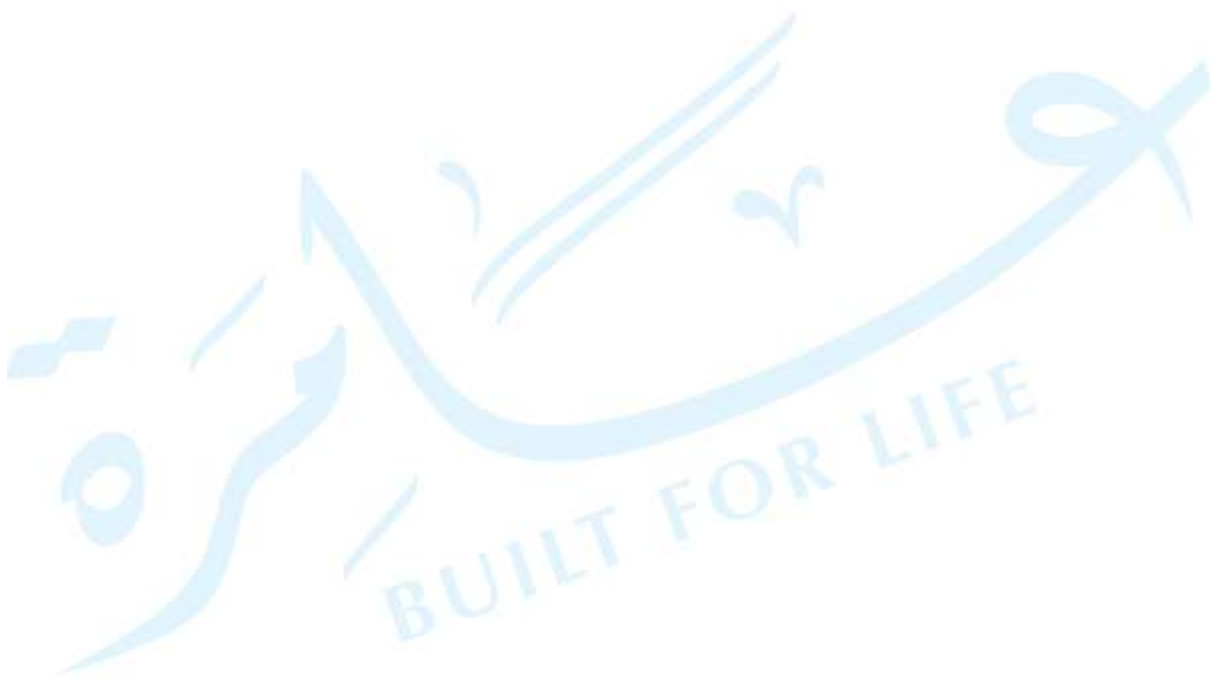
Khozam Real Estate Development Company (KDC) is a related party as the Company has a 51% equity holding equivalent to 27,554,651 shares out of total equity of 54,028,728 shares and also has common members in Board of Managers who are in the Board of Directors of Dar Al-Arkan. The common management committee members are Mr. Abdullatif Abdullah Al Shalash and Dr. Abdulrahman Hamad Al Harkan. The management of KDC requested that it invests its excess cash balance (opening balance as at beginning of 2015 amounted to SR 195.61 million) with Dar Al-Arkan at a nominal interest repayable on demand to facilitate its working capital needs. During 2015 the Company repaid SR 2,32 million of this amount in advance; together with interest of SR 0,96 million for its operational requirements. The closing balance as at 31 December 2015 was SR 194,25 million. This transaction was approved during the AGM on June 15 2015 and the company can repay the amount and close the balance anytime

### 14.3 Bank Alkhair

Bank Alkhair B.S.C is a related party as it has common Board Members with Dar Al-Arkan. The common Board Members are Mr. Yousef Abdullah Al Shelash, Mr. Hethloul Saleh Al Hethloul, Mr. Majed Abdulrahman Al Kasim, and Mr. Abdullatif Abdullah Al Shalash. In specific capital market transactions the Company enlisted Bank Alkhair to provide general financial advisory work on Shariah-compliance advice and management of the international Sukuk issuances. During 2015 there were no fees and expenses charged except the opening balance of SR 0.1 million which is the remainder of the amount paid in earlier to be paid/settled during 2016.

#### 14.4 Alkhair Capital

Alkhair Capital is a related party as the Company owns a 34% equity stake equivalent to 10,200,000 shares out of total issued shares of 30 million, and also has common Board Members with Dar Al-Arkan. The common Board Members are Mr. Yousef Abdullah Al Shelash, Mr. Hethloul Saleh Al Hethloul, and Mr. Abdullatif Abdullah Al Shalash. Alkhair Capital was engaged to provide general financial advice, 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 international Sukuk issuances, the partial pre-closure of the Sukuk and leasing/ subleasing of properties. During 2015 there were no fees and expenses charged and have no outstanding balance to be paid or settled.





## 15 Risks Attributable to the Company's Activities

- The massive decline in oil prices.
- Regional political complications.
- 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 and service providers 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
- In addition to the above mentioned, we will focus on the risks named in the audited financial statements:

- **Credit Risk**

Credit risk is the risk of financial loss to the Group if counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's bank balances, due from related parties and trade and other receivables.

Cash balances are deposited with a number of major high-credit rated financial institutions and has a policy of limiting its balances deposited with each institution.

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

- **Commission Rate Risk**

Commission Rate Risk is associated with a change in the commission rate available when renegotiating financial instruments that are influenced by the current global financial market conditions. The Group is exposed to commission rate risk with respect to its floating commission covenants agreed for its long term Islamic Murabaha (revolving credit) facilities obtained from local banks.

The short term revolving borrowings' rates are renegotiated at every renewal proposal to achieve the best possible commission rate to reflect the given financial credentials and related risk perception of the Group.

The Group has policy to hedge and manage its variable commission rate risk exposures, if any, with shariah' compliant commission rate swap whenever applicable. The Group's international borrowing commission rates are primarily based on LIBOR and its local borrowings are based on SAIBOR. Hence the

commission exposure of the Group is variable according to the changes in the LIBOR and SAIBOR.

- **Liquidity Risk**

Liquidity risk is the risk that the Group will encounter difficulty in realizing assets or otherwise raising funds to meet commitments associated with financial instruments. The liquidity risk is closely monitored through regular review of available funds and the cash flows from asset realizations against present and future commitments.

- **Foreign Currency Risk**

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange values. Management monitors fluctuations in foreign currency exchange rates, and believes that the Group is not exposed to significant currency risk since the Group's functional currency is the Saudi Riyal, in which the Group transacts, which is currently fixed, within a narrow margin, against the U.S. dollar.

- **Fair value of financial instruments**

Fair Value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's-length transaction. As the consolidated financial statements are prepared under the historical-cost convention, differences can arise between the book values and fair-value estimates. Management believes that the fair values of the financial assets and liabilities are not materially different from their carrying values.

## 16 Management and Administration

### 16.1 Board of Directors

During 2015, eleven members of the Board of Directors run the Company, of whom two are executive, two are non-executive and seven are independent members. The Board shall hold regular quarterly meetings on the invitation of the Chairman, and in each case the Board considers the need for convening such meetings. The Board held four meetings during 2015 and the members' attendance is as shown below:

#	Name	Capacity/ membership	Attendance	Other JSC Membership
1	Yousuf Abdullah Al Shelash	Chairman/non-executive	4	Saudi Home loans Co. (SHL) Alkhair Investment Bank Alkhair Capital
2	Abdullatif Abdullah Al Shelash	Executive	4	Saudi Home loans Co. (SHL) Alkhair Investment Bank Alkhair Capital T'azur Company
3	Abdulrahman Hamad Al Harkan	Executive	4	Saudi Home loans Co. (SHL)
4	Hathloul Bin Saleh Al Hathloul	Independent	4	Saudi Home loans Co. (SHL) Alkhair Investment Bank Alkhair Capital
5	Khalid Abdullah Al Shelash	Non-executive	3	
6	Tariq Bin Mohamed Al Jarallah	Independent	4	
7	Abdul Aziz Abdullah Al Shelash	Independent	4	
8	Majid Bin Romi Al-Romi	Independent	3	
9	Ahmed Mohammed Al Dahash	Independent	3	
10	Majed Abdul Rahman Al Qasim	Independent	4	Alkhair Investment Bank
11	Saleh Bin Mrikhan Al Mutairi	Independent	4	

## 16.2 Board Meetings Register

The Board meets at the request of the Chairman, and at other times contingent on specific requirements. The Board held four meetings in 2015 according to the attendance record shown below:

#	Name	15-Feb	19-May	15-Jun	30-Dec
1	Yousuf Abdullah Al Shelash	✓	✓	✓	✓
2	Abdullatif Abdullah Al Shelash	✓	✓	✓	✓
3	Abdulrahman Hamad Al Harkan	✓	✓	✓	✓
4	Hathloul Bin Saleh Al Hathloul	✓	✓	✓	✓
5	Khalid Abdullah Al Shelash	✓	☒	✓	✓
6	Tariq Bin Mohamed Al Jarallah	✓	✓	✓	✓
7	Abdul Aziz Abdullah Al Shelash	✓	✓	✓	✓
8	MajidRomi Al-Romi	☒	✓	✓	✓
9	Ahmed Mohammed Al Dahash	✓	☒	✓	✓
10	Majed Abdul Rahman Al Qasim	✓	✓	✓	✓
11	Saleh Bin MrikhanAlMutairi	✓	✓	✓	✓

## 16.3 Board Committees

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

### 16.3.1 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's Responsibilities and Meetings:

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 proper allocation of resources for the implementation of the Company's strategies such as funding and human resources; develop criteria for selecting the CEO and senior executive staff and to supervising its implementation; review and evaluate the performance of the executive management in achieving the goals of the set strategy and monitor and address any deviations; review and evaluate strategic plans quarterly in order to



evaluate and modify them when necessary according to market information and internal requirements; review periodic reports presented by the executive management that relate to the Company's competitive situation and 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 six meetings in 2015.

### 16.3.2 The Audit Committee, Consisting of:

1- Tariq Bin Mohamed AlJarallah	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:

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 4 meetings during 2015. The committee discussed and reviewed the quarterly and annual financial statements for the year 2015 and passed their recommendations to the Board.

### 16.3.3 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's Responsibilities and Meetings:

Recommendation to the Board of Directors to nominate for Board membership; annual review of the appropriate skills needed for Board membership and provide a description of the capabilities and qualifications required for membership; review the structure of the Board of Directors and recommend necessary changes identifying weaknesses and strengths; confirm periodically the independence of members and absence of any conflict of interests in the event of another Company Board membership; develop clear policies and criteria for Board members and senior executive remuneration according to performance criteria. The Committee held four meetings during 2015.

## 17 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 2015.

Description (in Saudi Riyal)	Executive Board members	Non-executive/independent Board members	Senior executives (including general manager and CFO)
Salaries and compensation	-	-	8,728,848
Allowances	-	-	3,476,097
Periodic and annual bonuses	-	-	-
Incentive plans	-	-	698,700
Any other compensations or incentives paid monthly or annually	-	-	-

## 18 Description of any Interest in contractual securities and underwriting rights of Board Directors and Senior Executives and their relatives in the Shares or debt instruments of the company or any of its affiliates and any change in that interest or rights during the last fiscal year

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 beginning of the year	Nature of Ownership
Yousuf Abdullah Al Shelash	Chairman	1,000	0.0001%	0	1,000	0.0001%	Director
Hathloul Bin Saleh Al Hathloul	Board Member	4,729,482	0.4379%	3,299,368	8,028,850	0.7434%	Director
Khalid Abdullah Al Shelash	Board Member	72,755,976	6.7367%	3,132,683-	69,623,293	6.4466%	Director
		957	0.0001%	-	957	0.0001%	Director owned by direct relative
Majed Abdul Rahman Al Qasim	Board Member	4,194,550	0.3884%	1,350,000-	2,844,550	0.2634%	Director
		639,154	0.0592%	-	639,154	0.0592%	Director owned by direct relative
Tariq Bin Mohamed Al Jarallah	Board Member	3,000	0.0003%	-	3,000	0.0003%	Director
Abdul Aziz Abdullah Al Shelash	Board Member	4,199,550	0.3888%	1,350,000-	2,849,550	0.2638%	Director
Majid Romi Al-Romi	Board Member	4,194,550	0.3884%	1,350,000-	2,844,550	0.2634%	Director
Abdullatif Abdullah Al Shelash	Board Member	8,137,550	0.7535%	0	8,137,550	0.7535%	Director
Ahmed Mohammed Al Dahash	Board Member	2,005,104	0.1857%	-	2,005,104	0.1857%	Director
Saleh Bin MrikhanAlMutairi (in person)	Board Member	-	0.0000%	-	-	0.0000%	Director
Saleh Bin MrikhanAlMutairi (as a representative of GOSI)	Board Member	32,241,457	2.9853%	32,240,457-	1,000	0.0001%	Owned by General Organization for Social Insurance
Abdulrahman Hamad Al Harkan	Board Member	10,000	0.0009%		10,000	0.0009%	Director
Ahmed bin Saleh Salman Al Dehilan	Internal Audit Manager	80,000	0.0074%	-	80,000	0.0074%	Director
TOTAL		133,192,330	12.3326%	36,123,772-	97,068,558	8.9878%	



**19 Description of any interest in voting shares of any persons (other than Board Directors and Senior Executives and their relatives) notifying the Company of ownership of 5% or more and any changes during the year.**

Name	Notification Date	No. of Shares	Ownership Percentage	Variance in percentage of shares during the year	Nature of ownership
Point Company Limited	20-Sep-14	57,120,995	0		Indirect: Ownership of a private company
	29-Dec-14	55,179,721	0	(0)	Indirect: Ownership of a private company

## 20 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.

It should be noted that the Company has applied all the corporate governance rules issued by the Capital Market Authority including mandatory and optional items except clause (b) of Article 6 in relation to the adoption of cumulative voting as a means of voting in respect of member elections to the Board at General Assembly meetings. The adoption of cumulative voting rights is still under review, as the Company's bylaws have not included rules on cumulative voting, and it will be included in the agenda of the next General Assembly meeting in 2016. However, two clauses are not applicable to the Company. These are: clause (d) of the same Article 6 which states that investors who are judicial persons and who act on behalf of others, e.g. investment funds- shall disclose in their annual reports their voting policies, actual voting, and corporate governance regulations including any material conflict of interest that may affect the fundamental rights of their investments. In addition clause (i) of Article 12 states that each legal proxy who is entitled under the Company's Articles of Association to appoint representatives to the Board of Directors, is not entitled to vote on matters concerning other members of the Board of Directors.

## 21 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 International Standards for the professional practice of Internal Auditing issued by the Institute of Internal Auditors. Their professional staffs 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 management process, 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 2015 the Internal Audit Department provided suggestions and recommendations regarding the improvement of some policies and procedures 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.

## 22 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.

### 22.1 Features of the Internal Control System

#### The Control Environment in the Company

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

#### Advanced Information Systems

The Company builds its advanced systems to comply 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.

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

During 2015, 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 was in compliance with policies and regulations. The review did not find any material weaknesses in the internal control system.



## 23 Investor Relations

Communication with shareholders, investors and the financial community are given high priority as an integral part to the Company's strategy and there is regular dialogue between Company executives and its shareholders, including 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 Capital Market Authority (CMA). Information is disseminated through proper 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.

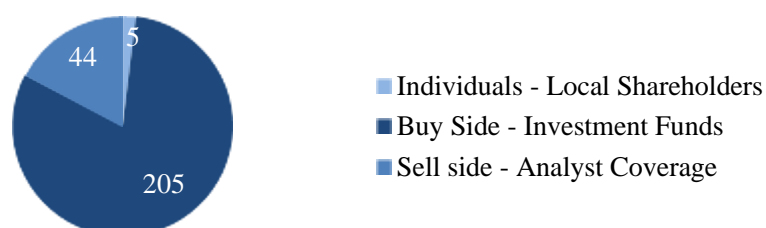
To enhance the effectiveness of communication with investors, analysts and the financial community, and in order to disseminate accurate information about the Company's operations, the Company holds periodic meetings with investors and other stakeholders including equity shareholders, Sukuk-holders and financial analysts from local and international banks that maintain investment 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 valuation of the Company's business.

Specialist staff in the investor relations department support 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 of the Company website with full access to Company information.

The Company invites shareholders to attend the general assembly meetings and take part in decision making. The Company announces such invitations through the website of the Saudi exchange 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 that 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 voted in the twelfth ordinary general assembly meeting held on 15 June 2016.

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

**An illustration showing Dar Al-Arkan meetings with its investors during 2015**



## 24 Human Resources

### 24.1 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 2015 is 334 employees.

### 24.2 Senior Management Biographies:

#### **Dr. Abdulrahman bin Hamad Al Harkan –Chief Executive Officer**

Dr. Abdulrahman Al Harkan is a Senior Executive in the area of Real Estate Development with more than 27 years of experience in Senior Management Positions, Board Memberships and key academic roles in the Kingdom of Saudi Arabia. He holds a Bachelor, Master's and Doctoral degrees in Architecture from Kind Saud University and from the University of Michigan, Ann Arbor, Michigan, USA. Prior to joining Dar Al Arkan, he was Dean of Admissions, CEO of Business Development and Secretary General of the Endowment at King Saud University and Vice President of the Real Estate Division of the Savola Group. He has served in several Board positions at many institutions.

#### **Nedal Sinan–Chief Operations Officer**

Mr. Nedal Sinan is the Chief Operations Officer of Dar Al Arkan. He supervises the effective implementation of the Company's strategy by coordinating the activities of the Development, Commercial, Construction and Asset Management Divisions. During his extensive 32 years of experience in Real Estate and Construction industries, he was responsible for various prominent, multi-billion projects for both public and private sector institutions. Mr. Nedal was graduated in 1982 as an electrical engineer from Louisiana Tech University, USA and has occupied leadership positions in various GCC countries, including Regional General Manager of Al Hamed Development & Construction, General Manager of Dar Investment & Development, Managing Partner of Prime Engineering Enterprises, Director of Development and Project Management at Qatar's Tanween Real Estate Development Company and Acting Chief Operating Officer of Qatar Project Management Company.

#### **Mika Toivola - Chief Financial Officer**

Mr. Mika Toivola is the Chief Financial Officer of Dar Al Arkan. He has over 25 years' experience in various multinational organizations, covering the Middle East, Scandinavia, Western Europe, Singapore and the USA. Prior to joining Dar Al Arkan, he was Group CFO at Al Arrab General Contracting of Saudi Arabia, Skanska Oy and the CEO of ABB Drives Group. Mr. Mika has a Master's Degree in National Economics from the University of Jyväskylä in Finland as well as a Bachelor's Degree Civil Engineering, construction management section. He Specializes in Corporate Finance management, M&A and is a recognized expert in the Sukuk markets.

#### **Richard David Thomas – Chief Commercial Officer**

Mr. Richard Thomas is the Chief Commercial Officer at Dar Al Arkan. He holds a Bachelor's Degree in Property Administration (BPA) from Auckland University, New Zealand. Before joining Dar Al-Arkan, he worked as the Director of Real Estate Services at Saudi Real Estate Company (Al Akaria). Prior to that, he worked as a Director of Corporate and Investor Services at CORE Commercial Real Estate Services (Dubai). Also he worked as a Director of Property Consultancy Services at T&T Property Consultancy Services (Dubai/Melbourne/Riyadh).

#### **Wesam Al Hazmi - Chief Asset Management Officer**

Mr. Wissam al-Hazmi is the Chief Assets Management Officer at Dar Al-Arkan. He is supervising the implementation of the company's strategy in an effective way through coordinating the activities of the leasing departments, utilities maintenance and services, and real estate management activities. He has over 17 years of experience in real estate development and operation sectors. Mr. Wissam al-Hazmi was graduated in 1997 from the management and economy department at King Abdul Aziz University in Saudi Arabia. Before joining Dar Al-Arkan, Mr. Hazmi occupied key positions in many companies and mega projects, including but not limited to the Director of Real Estate management at Saudi Emaar, King Abdullah Economic City and Director of the Western region in Arabian Centers Company Ltd. for managing and operating commercial and real estate centres.

#### **Husam Al Ramahi - Chief Project Management Officer**

Mr. Husam Al Ramahi is the Chief Project Management Officer of Dar Al Arkan. He has over 18 years of extensive and diversified experience across multiple industries (including Real Estate Development, Construction, Manufacturing and Service). Prior to Dar Al Arkan, he held progressive management positions at leading international organizations including Honeywell-(USA), Rockwell Automation/Allen Bradley - (USA) as well as the multinational construction conglomerate Saudi Bin laden Group (SBG-KSA). Mr. Husam holds a B.S Degree in Industrial Engineering & Management and an array of professional certifications including notably the American Society for Quality (ASQ)- Certified Six Sigma Black Belt (CSSBB), Certified Quality Engineer (CQE) and Certified Quality Auditor(CQA). He is also a certified Lean Business Project Leader, Certified Global Benchmarking/Best Practices Assessor & Implementer, and Certified Project Manager for Workgroups and a Certified Internal Trainer/Coach of ISO9001& ISO/TS-16949.

#### **Saleh Al Buttey - Chief Executive Officer, Shams ArRiyadh Project**

Mr. Saleh Al Buttey is the Chief Executive Officer of Shams Riyadh project that Dar Al-Arkan is developing. He has over 23 years of experience in the area of real estate investment and development, industry, and commercial services and businesses. Mr. Saleh has a bachelor degree in mechanical engineering from Umm Al-Qura the University and completed postgraduate studies in the field of the management. Before joining Dar Al-Arkan, Mr. Saleh occupied many leadership positions such as the Deputy Executive Officer of Al-Othai Investment and Real Estate Development, the General Director of Al Obaikan investment and

real estate development, as well as the General Manager of Rafal Environmental Services Ltd., several positions at Al-Babtain Groupe, Board Member of one of Mohammad Al-Abd Al-Aziz Al-Rajhi Companies (Fayhaa Al-Qassim), and a member of various committees.

#### **Isidro Beccar Varela - Commercial Advisor**

Mr. Isidro is the Commercial Advisor of Dar Al Arkan. He has over 20 years of Global experience (US, Europe, Latin America and Middle East). He was previously a Development Director at Qatary Diar, leading the operation of a multi-billion dollar real estate portfolio in Egypt. He was also Senior Vice President at Sol Media (one of the largest hotel chains in Europe), Regional Director at Playground/Intrawest and CEO of a large mixed use development project in Buenos Aires, Argentina. Mr. Isidro studied economics, graduated as a lawyer and started his professional life working for Sullivan & Cromwell in New York.

#### **Nabil Al Ghouli - Project Director**

Mr. Nabil Al Ghouli is the Project Director of Shams ArRiyadh project with over 35 years' experience in the construction industry. He holds a Degree in Engineering from King Abdullah University and is an accredited Project Management Professional by the University of Western Ontario. He also studied Business Administration at the University of Bath in the UK. Prior to joining Dar Al Arkan's senior team, he held senior positions at Union Properties United Trading & Steel Installation Company in Amman, Jordan.

#### **Badr Al Harbi - Chief Shared Services Officer**

Mr. Badr Al-Harbi is the Chief Shared Services Officer of Dar Al Arkan. He supervises the effective implementation of the Company's strategy by coordinating the activities of HR, Personnel, Legal Affairs, and IT departments. Mr. Bader holds an MBA from Cambridge International University in the UK with focus on Planning and Organizational Management. He, also, has a Bachelor's Degree in Engineering from the American University. Mr. Bader has over 17 years of experience in different fields including support services, facility and utility management. Prior to joining Dar Al Arkan, he occupied high level positions such as the General Director of Saudi Building Materials Company Ltd (SBM) and the Country Director of Support Services at the Saudi Post. He also occupied senior positions in Arabian Cement, Riyadh Cement and Saudi White Cement companies.

#### **Abdulaziz Al Dhuayan - Chief Communications Officer**

Mr. Abdul-Aziz is the Chief Communications Officer of Dar Al Arkan. He was graduated from King Fahad University of Petroleum and Minerals after getting the BA in Marketing. During his career, Mr. Abdulaziz gained many credentials and valuable experience in the field of marketing, public relations, branding and advertising. Prior to his joining to Dar Al-Aran, Mr. Abdulaziz occupied senior positions in banks sector as he worked in Al Rajhi Bank, SAMBA and Riyadh Bank.



## 25 Quality Assurance

The Quality Assurance Department is focused on adopting and establishing total quality management principles, which aim to improve product and service quality and customer satisfaction. The department's activities focus on establishment, activation and improvement of a Quality Management System ('QMS') 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.

### 25.1 Quality Assurance Department achievements in 2015

- Continued the efforts to re-align the QMS to match the changes in the new organizational structure and added new procedures to the system as appropriate.
- Published all approved procedures and related forms to the intranet for efficient and reliable access by all employees.
- Maintained ISO9001 certificate and successfully completed two independent quality surveillance audits.
- Planned and conducted two quality audit program cycles for all documented procedures.
- Conducted nine quality awareness and performance improvement training seminars including ISO9001, Process Mapping and Functional training.
- Conducted two MRM (Management Review Meetings) for quality systems.
- Trained and engaged six employees from other departments to conduct internal audits for quality.

## 26 Environmental and Social Responsibility

Contributing to the sustainable growth of local communities and environmental protection is of extreme importance to DAAR as a leading real estate developer that always strives for the improvement of society's quality of life. All DAAR's self-sustained and integrated communities consider the dominant social values and emphasize the importance of socio-economic, health, security, environmental and cultural factors in the Kingdom while offering integrated public, social, recreational and commercial services. As part of Company's social responsibility, DAAR adopts the philosophy of maintaining a healthy environment with lush green landscapes and pedestrian-friendly roads, thus reducing pollution rates as well as creating greater public areas to promote recreational activities.

In line with our obligations for social responsibility, DAAR is developing real estate projects that contribute to society's welfare. One exceptional project is Qasr Khozam and the development of the surrounding slums in the center of Jeddah city, which is being developed in collaboration with government authorities. The project is intended to provide integrated urban living with a healthy and safe environment that offers a unique living experience as well as leveraging the economic value of the region, providing more room for investment opportunities and securing thousands of job opportunities. Further to its social responsibility, DAAR has linked the Shams Al Arous project to the Palestine road extension to the East of the Al Haramain road in Jeddah city. The road is 4 kilometers long and 52 meters wide at a cost of SR 30 million.

Dar Al Arkan understands well its responsibility towards society and the importance of interacting with real estate issues. We address real estate and housing sector issues by analyzing, diagnosing and offering innovative solutions through participation in specialist exhibitions and conferences and by supporting related real estate events and activities as well as making direct contact with professionals in the real estate and related sectors. This exchange of knowledge and experience contributes to the development of the real estate sector in the region. Furthermore, DAAR extends bridges with different segments of the community and clients to identify their requirements and offer them real estate schemes which respond to market needs.

Dar Alarkan is not only committed to its social responsibilities in terms of conducting projects and interacting with sector issues, but it also runs the business in a way that cares about employees, develops their capabilities, and offers them job security ensuring a decent life style for staff and their families. By holding internal meetings during public holidays and the holy month of Ramadan, this spreads a spirit of well-being. DAAR manages to maintain a healthy and good working environment for increased productivity and improved quality of performance.

## 27 Events and Sponsorships during 2015

### 27.1 Ramadan Annual Celebration for DAAR Employees 2015

As part of its commitment to build strong relationships and promote cohesion between employees, DAAR held its annual IFTAR party at the Marriott Hotel – Makarem venue. The ceremony was honored by the attendance of the Company's Chairman, Mr. Yousef Bin Abdullah Al-Shelash, the Board of Directors and executive managers. The party allowed the Company's employees and management teams to socialize in festive surroundings, which further strengthened the family atmosphere that the Company has long enjoyed.

### 27.2 Al-Qasr Mall Hosts Riyadh Shopping and Entertainment Festival 2015

For the second time running, the organizing committee of the Riyadh Shopping and Entertainment Festival 1436 H (2015G), selected Al-Qasr Mall of DAAR to sponsor and hold the opening ceremony of the Festival under the auspices of HRH Prince Faisal Bin Bandar Bin Abdulaziz, Governor of Riyadh on Thursday June 7th, 2015. The Organizing Committee of the Festival at the Riyadh Chamber of Commerce and Industry has voted "Al-Qasr Mall" for hosting the opening ceremony this year after the great success of the opening ceremony of the Festival last year.

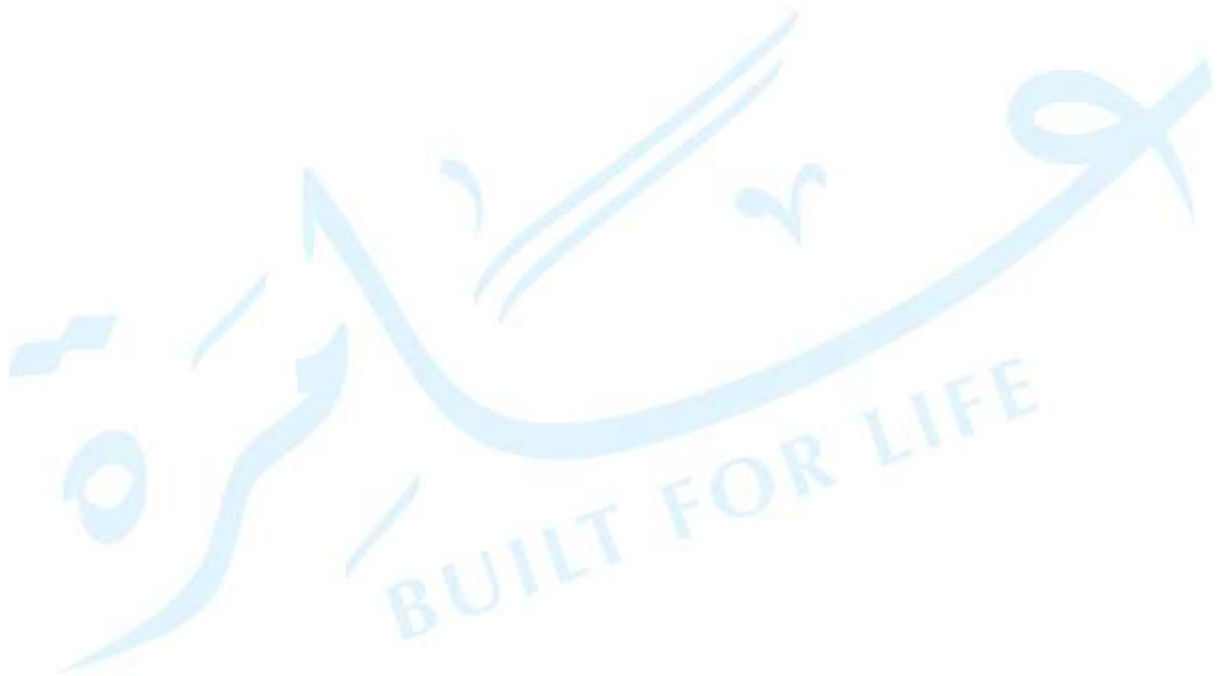
### 27.3 Restatex - Dar Al Arkan, the Diamond Sponsor of the 18th Riyadh Real Estate and Urban Development Exhibition 2015

As a diamond sponsor, DAAR participated in Restatex – the Riyadh Real Estate and Urban Development Exhibition in its 18th edition that was held in the Riyadh International Convention and Exhibition Center on 26th April 2015. DAAR showcased its pioneering achievements in urban real estate development and its completed projects as well as offering wide expertise in the real estate market, particularly in the housing sector. The DAAR marketing booth was the largest in Restatex with an area of more than 680 m<sup>2</sup>.

## 28 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
- 3) There are no significant doubts concerning the Company's ability to continue as a going concern



## 29 Penalties and Fines

In 2015, Dar Alarkan Real Estate Development Company (DAAR) received a fine of SR 20,000 (Twenty Thousand Saudi Riyals) due to its violation of clause (A) of Article (40) of the Listing Rules as well as sub-clause (5) of clause (B) of clause (1) of the Instructions for Companies' Announcements Related to General Assemblies. The company did not disclose in its announcement on 15/05/2014 regarding inviting its shareholders to attend the eleventh ordinary general assembly's meeting about all the details in the agenda which are related to the approval of the contracts and businesses in which the board member has a direct or indirect benefit. The company's announcement did not include the amount of transaction, name of the related board member and the nature of the transaction in the part related to the approval request on the transactions between the company and Saudi Home Loans "SHL". It also violated clause (B) of Article (40) of the Listing Rules as the company was late to disclose to the public about inviting its shareholders to attend the eleventh ordinary general assembly meeting on 15/05/2014.



### 30 Preparation status and readiness of IFRS

Following SOCPA guidelines, all listed entities including Dar Al Arkan, need to comply and adopt International Financial Reporting Standard (IFRS) for the financial periods starting from 1 January 2017.

In this regard, we state that to support our international capital market transactions with more detailed and comparable financial statements we have reported IFRS compliant audited financials for the year ended 31 December 2008. Since then, in parallel without statutory SOCPA audited financials, we have been issuing IFRS compliant consolidated audited financials to the investment community for their improved understanding, with comparatives and associated financial analysis. We also have issued consolidated audited IFRS financial statements for the year ended 31 December 2015.

Based on our preparations and compliance with IFRS requirements, we do not expect any problems or delays in adopting any additional disclosures or reclassifications which may be required for any future periods. Further, the Company is fully prepared for implementing the International Financial Reporting Standards on 1/1/2017.

### 31 Statement of Regulatory Payments due During 2015

Item	in (Saudi Riyals)	Description	Type of payment
Social Insurance	1,779,294	To be paid as per the rules of GOSI. Paid in full	Regular requirement
Government Charges	1,160,072	Charges for building licenses, subscription for Chamber of Commerce, fees for work permits, renewal of Iqama and others. Paid in full	Regular requirement
Zakat	57,902,985	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
CMA	20,000.00	violation of clause (A) of Article (40) of the Listing Rules as well as sub-clause (5) of clause (B) of clause (1) of the Instructions for Companies' Announcements Related to General Assemblies.	Fine
Total	60,862,351		

## 32 Awards in 2015

### 32.1 "Best Residential Developer in Saudi Arabia 2015" by "Euromoney"

DAAR has been recognized by "Euromoney", the international finance magazine, as the "Best Residential Developer in Saudi Arabia 2015" according to the 11th annual global Real Estate Survey conducted by the magazine. To select this year winners, "Euromoney" canvassed the opinions of more than 2000 senior real estate bankers, developers, investment managers, corporate end-users, and advisory firms over 70 countries worldwide. Through a series of the professional standards, the survey determined those organizations that exhibited the ability to innovate and make the best use of inherent strengths of their organization and their market incentives. According to the survey, DAAR managed to attain growth and cope with Saudi Arabia's fast-growing, young demographic.



جائزة أفضل مطور عقاري سكني  
في المملكة العربية السعودية  
من يوروموني ٢٠١٥ م

### 32.2 "Innovation in Real Estate Development 2015" by "The Entrepreneur" for its Landmark Project of Shams ArRiyadh

DAAR won the "Innovation in Real Estate Development 2015" award granted by "The Entrepreneur" magazine for developing its innovative project of "Shams ArRiyadh" North West of Riyadh. The magazine praised Shams ArRiyadh for its creative design of the master plan offering distinguished habitat options, attractive environment, and quality services for the residents and visitors. DAAR divided the project into completely integrated zones: the first comprises an independent neighborhood with self-centered services, the second includes a compound accommodating SABIC employees, and the third zone is a gated compound with integrated services. The fourth zone consists of two segments; a multi-purpose commercial area overlooking King Khalid Road that is configured to be an urban center offering unprecedented services in the city of Riyadh, in addition to supporting business, hotel, health and education services. The other segment is designated as a full-serviced diplomatic village, while the fifth and final zone of the project includes the palace area overlooking the valley.



جائزة الابتكار في التطوير العقاري (شمس الرياض)  
في المملكة العربية السعودية  
من إنترپرائز نور الشرق الأوسط ٢٠١٥ م

### 32.3 The "Real Estate Company of the Year – Saudi Arabia, 2015" by "The European"

DAAR was named "Real Estate Company of the Year-Saudi Arabia, 2015" by "The European" magazine, the globally recognized periodical which specializes in finance and business. The magazine acknowledged that the insight, vision and brilliant success of DAAR in the Saudi real estate market as well as its leading role in the real estate development, property management and real estate investment, has nominated the company for the well-deserved award. "The European" highlighted DAAR's ability to innovate and develop iconic projects that meet customer demand in a changing environment



جائزة الشركة العقارية الأولى  
في المملكة العربية السعودية  
من ذا يوربيان ٢٠١٥ م

### 32.4 The "Corporate Governance Company of the Year-Mena 2015" by "The European"

For the third year in a row, DAAR won the "Corporate Governance Company of the Year- MENA 2015" by "The European", the globally recognized magazine which specializes in finance and business. DAAR received the award in recognition of implementing best practices of interaction with stakeholders and investors around the world, in addition to DAAR's commitment to transparency, full disclosure and quality of internal audit system.



جائزة أفضل نظام حوكمة للشركات  
في الشرق الأوسط وشمال أفريقيا  
من ذا يوربيان ٢٠١٥ م