



**KINGDOM HOLDING COMPANY**

**(A Saudi Joint Stock Company)**

**Interim Consolidated Financial  
Statements (unaudited)**

**For the three-month and nine –month periods ended  
30 September 2016 together with the limited review report**

**KINGDOM HOLDING COMPANY**  
(A Saudi Joint Stock Company)  
**INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**  
**For the three-month and nine-month periods ended 30 September 2016**

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## LIMITED REVIEW REPORT

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

### **Scope of Review**

We have reviewed the accompanying interim consolidated balance sheet of **Kingdom Holding Company (the "Company")** and its subsidiaries (collectively referred to as the "Group") as at 30 September 2016, the interim consolidated statements of income for three-month and nine-month periods ended 30 September 2016, the interim consolidated statements of cash flows and changes in equity for the nine-month period then ended, and the related notes 1 through 15 which form an integral part of these interim consolidated financial statements.

These interim consolidated financial statements are the responsibility of the Group's management and have been prepared by them and submitted to us together with all the information and explanations which we required. Our responsibility is to provide a conclusion on these interim consolidated financial statements based on our review.

We conducted our review in accordance with Auditing Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A review consists principally of analytical procedures applied to financial data and information and making inquiries of Group's personnel responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion on the financial statements taken as a whole. Accordingly, we do not express such an opinion.

### **Review conclusion**

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

**For KPMG Al Fozan & Partners**  
**Certified Public Accountants**

**Abdullah Hamad Al Fozan**  
Licence No. 348

Riyadh on: 18 Muharram 1438H  
Corresponding to: 19 October 2016



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

	<u>Note</u>	<u>30 September</u> <u>2016</u>	<u>2015</u>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		4,714,561	1,062,927
Held for trading investments		-	2,454,410
Accounts receivable and other current assets		1,422,702	1,116,850
Assets held for sale		58,419	175,245
<b>Total current assets</b>		<u>6,195,682</u>	<u>4,809,432</u>
<b>Non-current assets</b>			
Available for sale investments	4	8,555,635	10,787,475
Investments in associates and joint venture, net	5	14,299,402	17,639,491
Investments in real estate	6	2,077,915	2,221,082
Property and equipment, net		8,358,784	5,612,512
Intangible assets, net	7	1,727,170	1,771,479
Other long term assets		397,014	401,145
<b>Total non-current assets</b>		<u>35,415,920</u>	<u>38,433,184</u>
<b>Total assets</b>		<u>41,611,602</u>	<u>43,242,616</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Bank borrowings and term loans	8	372,676	1,980,744
Accounts payable, accrued expenses and other current liabilities		872,283	978,479
Dividends payable		163,985	163,985
<b>Total current liabilities</b>		<u>1,408,944</u>	<u>3,123,208</u>
<b>Non-current liabilities</b>			
Bank borrowings and term loans	8	11,624,096	10,473,148
Other long term liabilities		375,905	353,014
<b>Total non-current liabilities</b>		<u>12,000,001</u>	<u>10,826,162</u>
<b>Total liabilities</b>		<u>13,408,945</u>	<u>13,949,370</u>
<b>Equity</b>			
Equity attributable to shareholders of the Company:			
Share capital		37,058,823	37,058,823
Statutory reserve		548,081	477,367
Retained earnings		1,347,307	1,566,384
Unrealized loss from available for sale investments	4	(11,601,451)	(10,143,471)
Foreign currency translation adjustments and others		(254,690)	(199,050)
<b>Total shareholders' equity</b>		<u>27,098,070</u>	<u>28,760,053</u>
Minority interests		1,104,587	533,193
<b>Total equity</b>		<u>28,202,657</u>	<u>29,293,246</u>
<b>Total liabilities and equity</b>		<u>41,611,602</u>	<u>43,242,616</u>

**Contingencies**

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The notes on pages 7 to 19 form an integral part of these interim consolidated financial statements.

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

		<b>Three-month period ended 30 September</b>		<b>Nine-month period ended 30 September</b>	
	<i>Note</i>	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
<b>Revenues</b>					
Hotels and other operating revenues		427,266	481,758	1,323,181	1,437,862
Dividends income		25,446	37,932	52,625	116,009
Income from associates and joint venture, net	5	113,699	112,614	132,178	226,658
Income from and gain on investments and others, net	10	370,657	231,936	764,384	512,447
Other		19,929	910	54,274	117,725
Total revenues		<u>956,997</u>	<u>865,150</u>	<u>2,326,642</u>	<u>2,410,701</u>
<b>Costs and expenses</b>					
Hotels and other operating costs		(283,586)	(305,630)	(887,856)	(962,488)
General and administrative		(84,639)	(117,582)	(239,764)	(304,409)
Total costs and expenses		<u>(368,225)</u>	<u>(423,212)</u>	<u>(1,127,620)</u>	<u>(1,266,897)</u>
<b>Gross profit</b>		<b>588,772</b>	<b>441,938</b>	<b>1,199,022</b>	<b>1,143,804</b>
Depreciation		(56,736)	(41,888)	(145,493)	(139,847)
Other (losses) / gains, net	11	(233,781)	--	(233,781)	--
Income from main operations		<u>298,255</u>	<u>400,050</u>	<u>819,748</u>	<u>1,003,957</u>
Financial charges, net		(107,767)	(81,830)	(286,522)	(248,068)
Income before minority interests, zakat and income tax		<u>190,488</u>	<u>318,220</u>	<u>533,226</u>	<u>755,889</u>
Minority interests		14,115	2,417	(9,497)	(26,965)
Income before zakat and income tax		<u>204,603</u>	<u>320,637</u>	<u>523,729</u>	<u>728,924</u>
Zakat and income tax	12	(24,727)	(29,087)	(54,061)	(59,692)
<b>Net income for the period</b>		<b><u>179,876</u></b>	<b><u>291,550</u></b>	<b><u>469,668</u></b>	<b><u>669,232</u></b>
<b>Earnings per share (Saudi Riyals):</b>	13				
▪ Income from main operations		<u>0.08</u>	<u>0.11</u>	<u>0.22</u>	<u>0.27</u>
▪ Net income for the period		<u>0.05</u>	<u>0.08</u>	<u>0.13</u>	<u>0.18</u>

The notes on pages 7 to 19 form an integral part of these interim consolidated financial statements.

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

		<b>Nine-month period ended</b>	
		<b>30 September</b>	
	<b>Note</b>	<b>2016</b>	<b>2015</b>
<b>Cash flow from operating activities</b>			
Income before zakat and income tax		523,729	728,924
<u>Adjustments for non-cash items</u>			
Depreciation		145,493	139,847
Income from associates and joint venture, net	5	(132,178)	(226,658)
Income from and gain on investments and others, net	10	(764,384)	(512,447)
Other (losses) / gains, net	11	233,781	--
Income attributable to minority interests		9,497	26,965
<u>Changes in working capital</u>			
Accounts receivable and other current assets		191,205	8,786
Movement in investments in real estate, net		9,090	(624)
Other long term assets		(23,439)	26,051
Movement in held for trading investments		2,202,542	427,659
Accounts payable, accrued expenses and other current liabilities		(246,904)	(118,683)
Other long term liabilities		1,454	(34,412)
Net cash generated from operating activities		<u>2,149,886</u>	<u>465,408</u>
<b>Cash flow from investing activities</b>			
Acquisition of available for sale investments	4	(3,994)	(154,429)
Additions to associates		(99,111)	(79,228)
Capital repayment and dividends from associate	5	--	119,925
Proceeds from disposal of available for sale investments		1,558,038	--
Net proceeds from sale of associate		1,195,712	--
Proceeds from sale of a joint venture		--	117,738
Property and equipment, net		(77,450)	(101,609)
Net cash flow on acquisition	3	14,969	--
Net cash generated from / (utilized in) investing activities		<u>2,588,164</u>	<u>(97,603)</u>
<b>Cash flow from financing activities</b>			
Bank borrowings and term loans, net		(2,001,361)	42,644
Dividends paid	9	(655,941)	(491,956)
Net cash utilized in financing activities		<u>(2,657,302)</u>	<u>(449,312)</u>
<b>Net change in cash and cash equivalents</b>		<b>2,080,748</b>	<b>(81,507)</b>
Cash and cash equivalents at the beginning of the period		<u>2,633,813</u>	<u>1,144,434</u>
<b>Cash and cash equivalents at the end of the period</b>		<u><b>4,714,561</b></u>	<u><b>1,062,927</b></u>
<b>Supplemental schedule of non-cash information</b>			
Increase in unrealized loss from available for sale investments	4	<u>(1,559,350)</u>	<u>(2,633,245)</u>
Cost of available for sale investments transferred to held for trading investments	4	<u>115,265</u>	<u>1,038,031</u>

The notes on pages 7 to 19 form an integral part of these interim consolidated financial statements.



The image shows a handwritten signature in blue ink on the left and a circular stamp with the number '5' inside on the right, both positioned below the financial statement text.

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

	Equity attributable to shareholders of the Company							
	Share capital	Statutory reserve	Retained earnings	Unrealized loss from available for sale investments	Foreign currency translation adjustments and others	Total	Minority interests	Total equity
1 January 2016 (Audited)	37,058,823	548,081	1,533,580	(10,126,110)	(422,287)	28,592,087	540,312	29,132,399
Net income for the period	--	--	469,668	--	--	469,668	9,497	479,165
Dividends	9	--	(655,941)	--	--	(655,941)	--	(655,941)
Acquisition of subsidiary	--	--	--	--	--	--	570,051	570,051
Net movement during the period	--	--	--	(1,475,341)	167,597	(1,307,744)	(15,273)	(1,323,017)
30 September 2016 (Unaudited)	37,058,823	548,081	1,347,307	(11,601,451)	(254,690)	27,098,070	1,104,587	28,202,657
1 January 2015 (Audited)	37,058,823	477,367	1,553,093	(6,695,427)	(137,867)	32,255,989	516,687	32,772,676
Net income for the period	--	--	669,232	--	--	669,232	26,965	696,197
Dividends	9	--	(655,941)	--	--	(655,941)	--	(655,941)
Net movement during the period	--	--	--	(3,448,044)	(61,183)	(3,509,277)	(10,459)	(3,519,686)
30 September 2015 (Unaudited)	37,058,823	477,367	1,566,384	(10,143,471)	(199,050)	28,760,053	533,193	29,293,246

The notes on pages 7 to 19 form an integral part of these interim consolidated financial statements.

**KINGDOM HOLDING COMPANY**  
**(A Saudi Joint Stock Company)**  
**Notes to the interim consolidated financial statements**  
**For the three-month and nine-month periods ended 30 September 2016 (Unaudited)**  
**(All amounts in Saudi Riyals thousands unless otherwise stated)**

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**1 GENERAL INFORMATION**

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

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

The principal activities and the various segments of the Company and its subsidiaries (the “Group”) are described in Note 14.

These interim consolidated financial statements were authorized for issue by the Company's Board of Directors on 19 October 2016.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**2.1 BASIS OF PREPARATION**

**(a) Statement of compliance**

The interim consolidated financial statements have been prepared in accordance with the Standard on Interim Financial Reporting issued by SOCPA. The accounting policies used in the preparation of the interim consolidated financial statements are consistent with those used in the preparation of annual consolidated financial statements for the year ended 31 December 2015.

**(b) Basis of measurement**

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

**(c) Basis of consolidation**

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

**KINGDOM HOLDING COMPANY**  
**(A Saudi Joint Stock Company)**  
**Notes to the interim consolidated financial statements**  
**For the three-month and nine-month periods ended 30 September 2016 (Unaudited)**  
**(All amounts in Saudi Riyals thousands unless otherwise stated)**

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.1 BASIS OF PREPARATION (CONTINUED)**

The interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements as at December 31, 2015. In the opinion of management, the interim consolidated financial statements reflect all adjustments (which include normal recurring adjustments) necessary to present fairly the statement of financial position, results of operations and cash flows for the period presented.

The interim results of operations for the three-month and nine-month period may not represent proper indication for the annual results of the operations.

**2.2 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

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

In preparing these interim consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are consistent to those applied to the consolidated financial statements for the year ended 31 December 2015.

**2.3 ASSETS HELD FOR SALE**

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

**KINGDOM HOLDING COMPANY**  
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**Notes to the interim consolidated financial statements**  
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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.4 INVESTMENTS**

**(a) Held for trading investments**

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

**(b) Investment in available for sale investments**

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

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

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

**(c) Associates and joint ventures**

Associates and joint ventures are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates and joint ventures are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in associates and joint ventures includes goodwill identified on acquisition, net of any accumulated amortization and impairment losses, if any. Under the equity method, investments in associates and joint ventures are carried in the interim consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates and joint ventures.

The interim consolidated income statement reflects the Group's share in the results of associates and joint ventures and the Group's share of post-acquisition movements in reserves, if any, is recognized in equity. When the Group's share of losses in an associate and joint venture equals or exceeds its interest in the associate and joint venture, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

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

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.4 INVESTMENTS (CONTINUED)**

**(d) Investments in real estate**

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

**2.5 INTANGIBLE ASSETS**

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

**2.6 IMPAIRMENT**

**(a) Non-financial assets - tangible and intangible assets**

At each reporting period, the Group reviews the carrying amounts of its long term tangible and intangible assets to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Recoverable amounts are determined on the basis of value-in-use calculations. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

**(b) Financial assets**

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

- (i)** For assets carried at fair value, impairment is the difference between the cost less any impairment loss previously recognized in consolidated income statement, and fair value; and
- (ii)** For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

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**(All amounts in Saudi Riyals thousands unless otherwise stated)**

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.6 IMPAIRMENT (CONTINUED)**

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

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

**2.7 LOANS AND BANK BORROWINGS**

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

**2.8 REVENUE**

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

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

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

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

**2.9 SEGMENTAL REPORTING**

**(a) Business segment**

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

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

**(b) Geographical segment**

**KINGDOM HOLDING COMPANY**  
**(A Saudi Joint Stock Company)**  
**Notes to the interim consolidated financial statements**  
**For the three-month and nine-month periods ended 30 September 2016 (Unaudited)**  
**(All amounts in Saudi Riyals thousands unless otherwise stated)**

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.9 SEGMENTAL REPORTING (CONTINUED)**

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

**2.10 FOREIGN CURRENCY TRANSLATIONS**

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

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

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

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

The main implications of above application are as follows:

- Adjustment of the historical cost of the entity's non-monetary assets and liabilities and the various items of equity from their date of acquisition or inclusion in the Group interim consolidated balance sheet to the end of period ended September 30, 2016 to reflect the changes in purchasing power of the currency caused by inflation.
- Adjustment of the interim consolidated income statement of the entity for the current period to reflect the financial gain/loss caused by the impact of inflation during the period on net monetary liabilities/assets (loss/gain of purchasing power).
- The various components of the financial statements of the entity have been adjusted for the inflation index since their generation.
- The results and financial position of the entity are translated into Saudi Riyals at the closing exchange rate at the date of that balance sheet.

The main effects on the Group's interim consolidated financial statements due to hyperinflationary accounting (which includes both indexing up and using of closing exchange rate) for the nine-month period ended 30 September 2016, are not significant to the interim consolidated financial statements.

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**3 BUSINESS COMBINATION ACHIEVED IN STAGES**

On 12th of July 2016, AccorHotels ("Accor") at its Annual General Meeting approved the agreement which the Group signed with Accor on 9 December 2015. The agreement has resulted in the Group disposing its entire shareholding in Fairmont Raffles Holdings International, an associate, to Accor in return for 5.8% newly issued shares in Accor itself and representation at its Board, cash consideration of USD339 million and transfer of certain other assets including an additional share of 8.83% in Breezeroad Limited ("Savoy"). This transaction ("Accor transaction") resulted in the Group recognizing a total loss on disposal amounting to SR 271.7 million (refer note 11), recognizing Accor as an associate investment and Savoy as a subsidiary during the current period.

These interim consolidated financial statements include the results of Savoy from 12<sup>th</sup> July 2016, as the Group has effectively obtained control of Savoy from that date.

The re-measurement to fair value of the Group's existing 50% interest in Savoy resulted in one-time gain of SR 508.7 million.

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

	<u>12 July 2016</u>
<b><u>Goodwill on acquisition</u></b>	
Current Assets	65,276
Non-current assets	2,948,471
	<u>3,013,747</u>
<b><u>Liabilities acquired</u></b>	
Current liabilities	(55,135)
Non-current liabilities	(1,569,600)
Fair value of net assets acquired	<u>1,389,012</u>
Total acquisition cost	697,196
Non-controlling Interest	570,051
Gain on bargain purchase	<u>121,765</u>
<b><u>Total acquisition cost:</u></b>	
Cash consideration	2,690
Fair value of previously held equity interest	694,506
Total acquisition cost	<u>697,196</u>
<b><u>Cash flow on acquisition:</u></b>	
Net cash acquired with the subsidiary	17,659
Cash paid	(2,690)
Net cash flow on acquisition	<u>14,969</u>

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**4 AVAILABLE FOR SALE INVESTMENTS**

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

	<b>30 September</b>	
	<b><u>2016</u></b>	<b><u>2015</u></b>
International	8,020,305	10,195,452
Local and regional	<u>535,330</u>	<u>592,023</u>
	<b><u>8,555,635</u></b>	<b><u>10,787,475</u></b>

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

	<b>30 September</b>	
	<b><u>2016</u></b>	<b><u>2015</u></b>
Cost, net of impairment charge:		
1 January	21,206,436	21,814,548
Additions during the period	49,054	154,429
Disposals	(983,139)	—
Transfer to held for trading investments	<u>(115,265)</u>	<u>(1,038,031)</u>
30 September	<b><u>20,157,086</u></b>	<b><u>20,930,946</u></b>
Unrealized loss, net of impairment charge:		
1 January	(10,126,110)	(6,695,427)
Increase in unrealized loss during the period, net	(1,559,350)	(2,633,245)
Unrealized gain related to investments transferred to held for trading investments (Note 10)	<u>84,009</u>	<u>(814,799)</u>
30 September	<b><u>(11,601,451)</u></b>	<b><u>(10,143,471)</u></b>
Net carrying amount	<b><u>8,555,635</u></b>	<b><u>10,787,475</u></b>

Certain available for sale investments are used as collateral against bank borrowings and term loans of the Company and its subsidiaries (Note 8).

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

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

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**5 INVESTMENTS IN ASSOCIATES AND JOINT VENTURE, NET**

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

	<b>30 September</b>	
	<b><u>2016</u></b>	<b><u>2015</u></b>
1 January	16,384,596	17,551,341
Additions during the period (Note 5.1)	3,293,397	79,228
Capital repayment and dividends from associates	--	(119,925)
Disposals during the period (Note 3)	(5,303,478)	(79,131)
Share in income, net	132,178	226,658
Transfer to consolidated subsidiary (Note 5.2)	(185,831)	--
Other movements	(21,460)	(18,680)
30 September	<b><u>14,299,402</u></b>	<b><u>17,639,491</u></b>

- 5.1 This represents 16.494 million shares Accor S.A. (equivalent to 5.8% ownership) acquired as part of sales consideration against disposal of shareholding in Fairmont Raffles Holdings International (note 3).
- 5.2 This represents Group's 50% interest in Savoy. During the period the Group has acquired a further 8.96% interest as a part of Accor transaction (Note 3). Fair value of 50% interest at acquisition date was SAR 694.5 million (Note 3). The group has recognized as one off gain amounting to SAR 508.7 million on step acquisition.

**6 INVESTMENTS IN REAL ESTATE**

	<b>30 September</b>	
	<b><u>2016</u></b>	<b><u>2015</u></b>
Investments in land and related infrastructure costs - Saudi Arabia	1,969,756	2,111,838
Properties under construction and other	108,159	109,244
	<b><u>2,077,915</u></b>	<b><u>2,221,082</u></b>

**7 INTANGIBLE ASSETS, NET**

	<b>30 September</b>	
	<b><u>2016</u></b>	<b><u>2015</u></b>
Goodwill	1,671,717	1,714,934
Other intangible assets	55,453	56,545
	<b><u>1,727,170</u></b>	<b><u>1,771,479</u></b>

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

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

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**8 BANK BORROWINGS AND TERM LOANS**

	<u>30 September</u>	
	<u>2016</u>	<u>2015</u>
<u>Current</u>		
Short-term loans	30,414	233,484
Revolving credit facilities	—	187,500
	<u>30,414</u>	<u>420,984</u>
Current portion of term loans	342,262	1,559,760
	<u>372,676</u>	<u>1,980,744</u>
<u>Non-current</u>		
Term loans, including long term revolving facilities	11,624,096	10,473,148
	<u>11,996,772</u>	<u>12,453,892</u>

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

	<u>30 September</u>	
	<u>2016</u>	<u>2015</u>
Kingdom Holding Company (KHC)	4,277,263	4,917,753
Kingdom 5-KR-11 Limited (KR-11)	3,704,803	4,677,434
Kingdom 5-KR-35 (George V)	1,449,909	1,447,495
Kingdom Hotel Investments (KHI)	963,976	1,103,202
Others	1,600,821	308,008
	<u>11,996,772</u>	<u>12,453,892</u>

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

**9 DIVIDENDS**

The General Assembly of the Company, in its annual meeting held on Jamada Al Akhira 21, 1437H (corresponding to March 30, 2016), approved quarterly cash dividends distribution totaling to Saudi Riyals 656 million for the year as recommended by the Company's Board of Directors. The cash distributions have to be made to all shareholders on record as of the dates approved in the General Assembly meeting. The first dividend distribution was made to all shareholders on record as of the date approved in the General Assembly meeting.

**10 INCOME FROM AND GAIN ON INVESTMENTS AND OTHERS, NET**

	<u>Three-month periods</u> <u>ended 30 September</u>		<u>Nine-month periods</u> <u>ended 30 September</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Change in market value of held for trading investments	—	227,415	106,202	439,144
Others, net	370,657	4,521	658,182	73,303
	<u>370,657</u>	<u>231,936</u>	<u>764,384</u>	<u>512,447</u>

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**10 INCOME FROM AND GAIN ON INVESTMENTS AND OTHERS (CONTINUED)**

During the nine-month period ended 30 September 2016, the Group designated certain investment securities to held for trading, which were previously classified as available for sale. As a result, the revaluation gain on these investments amounting to Saudi Riyals 84.0 million (2015: Saudi Riyals 815.0 million) has been recycled from equity and recognized in the interim consolidated income statement (Note 4). Revaluation gain on other held for trading investments for the period 30 September 2016 was Saudi Riyals 22.2 million (2015: Loss of Saudi Riyals 376.0 million).

Others, net for the period, mainly represents gain from sale of held for trading investments amounting to Saudi Riyals 83.0 million (2015: Saudi Riyals 27.5 million), gain on sale of available for sale investments amounting to Saudi Riyals 575.2 million (2015: Saudi Riyals Nil) and gain on sale of a joint venture amounting to Saudi Riyals Nil (2015: Saudi Riyals 38.6 million).

**11 OTHER (LOSSES) / GAINS, NET**

	Three-month periods ended 30 September		Nine-month periods ended 30 September	
	2016	2015	2016	2015
Loss on Accor transaction , net of tax* (Note 3)	(271,678)	—	(271,678)	—
Gain on sale of assets held for sale	37,897	—	37,897	—
	<u>(233,781)</u>	<u>—</u>	<u>(233,781)</u>	<u>—</u>

\* The amount disclosed is net of bargain purchase gain and one off step acquisition gain on Savoy.

**12 ZAKAT AND TAX MATTERS**

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

	Three-month periods ended 30 September		Nine-month periods ended 30 September	
	2016	2015	2016	2015
Zakat provisions	8,262	3,710	26,050	11,757
Income tax provision, net	9,626	14,793	13,019	26,430
Withholding tax on foreign dividends	6,839	10,584	14,992	21,505
	<u>24,727</u>	<u>29,087</u>	<u>54,061</u>	<u>59,692</u>

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

**Status of final assessments**

The Company has received final assessments from the Department of Zakat and Income Tax ("DZIT") up to year 2006. During 2012, the Company received assessment from the DZIT for the years 2007 to 2010 resulting in additional zakat assessment. Management seriously contested the matters included in the assessment and filed an appeal providing its detailed arguments against the assessment. During the year ended December 31, 2015, the Company received an adjusted zakat assessment, thereby significantly reducing the zakat liability and giving the Company the right to appeal within sixty days. Management has filed an appeal against the adjusted zakat assessment and continues to seriously contest the matters included in the adjusted assessment. Management believes that the eventual outcome will not result in any additional significant liability.

The Company has filed its zakat returns till the year ended December 31, 2014 with the DZIT.

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**13 EARNINGS PER SHARE**

Earnings per share for the three-month and nine-month periods ended 30 September 2016 and 2015 have been computed by dividing the income from main operations and net income for each of the period by the number of shares outstanding during such period of 3,706 million shares.

**14 SEGMENT INFORMATION**

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

Equity investments

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

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

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

Hotels

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

Real Estate and Domestic

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

*Domestic* - The principal activity includes investments in local entities.

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

	<u>Equity investments</u>	<u>Hotels</u>	<u>Real estate and domestic</u>	<u>Total</u>
<b>2016</b>				
Total assets	16,358,125	15,554,097	9,699,380	41,611,602
Total liabilities	8,388,681	4,633,357	386,907	13,408,945
Revenues:				
For the three-month period ended 30 September	234,044	652,691	70,262	956,997
For the nine-month period ended 30 September	728,392	1,208,759	389,491	2,326,642
Net income:				
For the three-month period ended 30 September	137,892	46,302	(4,318)	179,876
For the nine-month period ended 30 September	443,740	(10,387)	36,315	469,668
<b>2015</b>				
Total assets	18,268,014	17,974,061	7,000,541	43,242,616
Total liabilities	10,093,961	3,270,882	584,527	13,949,370
Revenues:				
For the three-month period ended 30 September	362,248	379,663	123,239	865,150
For the nine-month period ended 30 September	840,129	1,028,261	542,311	2,410,701
Net income:				
For the three-month period ended 30 September	268,227	50,025	(26,702)	291,550
For the nine-month period ended 30 September	571,305	75,604	22,323	669,232

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**14 SEGMENT INFORMATION (CONTINUED)**

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

- b) The Group has diversified investments in various segments concentrated geographically as follows:
- The activities of the Equity segment are mainly concentrated in the United States of America and the Middle East.
  - The Hotels segment comprises of various 'brands' which are spread in most parts of the world, but mainly in Europe, North America, the Middle East and Asia.
  - The Real Estate comprises of significant concentration of properties in the Kingdom of Saudi Arabia.

**15 CONTINGENCIES**

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