



KINGDOM HOLDING COMPANY

(A Saudi Joint Stock Company)

Consolidated Financial
Statements (audited)

For the year ended

December 31, 2018 and Independent Auditors report

KINGDOM HOLDING COMPANY
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
AND INDEPENDENT AUDITOR'S REPORT

KINGDOM HOLDING COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

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Independent auditor's report to the shareholders of Kingdom Holding Company

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Kingdom Holding Company (the "Company") and its subsidiaries (together the "Group") as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the code of professional conduct and ethics, endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the consolidated financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Independent auditor's report to the shareholders of Kingdom Holding Company (continued)

Our audit approach

Overview

Key audit matters	<ul style="list-style-type: none">• Impairment review of indefinite life intangible assets• Impairment review of equity-accounted investees
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As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report to the shareholders of Kingdom Holding Company (continued)

Key audit matter	How our audit addressed the key audit matter
<p><i>Impairment review of indefinite life intangible assets</i></p> <p>At 31 December 2018, the Group had indefinite life intangible assets, including goodwill and brand, which arose on past business combinations amounting to Saudi Riyals 1,938 million (2017: Saudi Riyals 2,394 million).</p> <p>In accordance with the International Accounting Standard "Impairment of assets" (IAS 36), an entity is required to test indefinite life intangible assets acquired in a business combination for impairment at least annually irrespective of whether there is any indication of impairment.</p> <p>These intangible assets are monitored by management at the level of cash-generating units ("CGUs") which are the different operating activities of the Group. Management carried out an impairment exercise in respect of indefinite useful life intangible assets allocated to each CGU by determining a recoverable amount based on value-in-use of each CGU based on a discounted cash flow model, which utilized the most recent five-year business plan prepared by the Group's management. The outcome of this exercise at 31 December 2018 did not result in any impairment loss to be recognized.</p> <p>We considered impairment testing of indefinite life intangible assets performed by management as a key audit matter since the assessment of the recoverable amount under the value-in-use basis is complex and requires considerable judgment around use of estimates on the part of management. The critical judgmental elements of management's assessment were:</p> <ol style="list-style-type: none"> (a) assumptions concerning the expected economic conditions and growth in the various territories where the CGU's operate; (b) expected revenue and gross margin assumptions; and (c) discount rates and terminal growth rates used in the value-in-use cash flow model. <p><i>Refer to Note 4.6 for the accounting policy and Note 16 for the related disclosure in the accompanying consolidated financial statements.</i></p>	<p>We assessed management's impairment assessment of indefinite life intangible assets by performing the following procedures:</p> <ul style="list-style-type: none"> • Assessed the methodology used by management to determine a recoverable value based on the value-in-use of each CGU and compared it to that required by IAS 36. We also tested the arithmetical accuracy of the models used and logical integrity of the underlying calculations; • Tested the accuracy and relevance of the input data by reference to supporting evidence, such as approved budgets and considered the reasonableness of these budgets by comparison to the Group's historical results and performance against budgets; • Engaged our own valuation experts to assist in the review of the methodology of the value-in-use calculations and the derivation and use of certain assumptions including discount rates and long-term growth rates; and • Performed sensitivity analyses over key assumptions, principally sales growth rate, and terminal value multiple and discount rates, in order to assess the potential impact of a range of possible outcomes. <p>We also reviewed the adequacy of the Group's disclosures included in the notes to the accompanying consolidated financial statements in relation to the accounting policy and testing impairment of indefinite life intangible assets.</p>

Independent auditor's report to the shareholders of Kingdom Holding Company (continued)

Key audit matter	How our audit addressed the key audit matter
<i>Impairment review of equity-accounted investees</i>	
<p>At 31 December 2018, the Group had investments in equity-accounted investees amounting to Saudi Riyals 19,158 million (2017: Saudi Riyals 19,231 million).</p> <p>In accordance with the International Accounting Standard "Impairment of assets" (IAS 36), an entity is required to perform impairment reviews whenever there is an identified trigger for impairment.</p> <p>Management carried out an impairment review of its equity-accounted investments. The outcome of this exercise resulted in an impairment loss of Saudi Riyals 200 million.</p> <p>We considered impairment testing of equity-accounted investments performed by management as a key audit matter since the assessment of impairment is complex and requires considerable judgment around use of estimates on part of management. The critical judgmental elements of management's assessment were:</p> <ul style="list-style-type: none"> (a) Revenue growth estimates; (b) Discount rates; and (c) Cap rates used in the cash flow models. <p><i>Refer to Note 4.2(iii) and Note 4.8 for the accounting policies and Note 13 for the related disclosure in the accompanying consolidated financial statements.</i></p>	<p>We assessed management's impairment assessment by performing the following procedures:</p> <ul style="list-style-type: none"> • Assessed the methodology used by management to determine a recoverable value and compared it to that required by IAS 36. We also tested the arithmetical accuracy of the models used; • Tested the accuracy and relevance of the input data by reference to supporting evidence, such as approved budgets and considered the reasonableness of these budgets by comparison to the Group's historical results and performance against budgets; • Engaged our own valuation experts to assist in the review of the methodology of the impairment calculations and the derivation and use of certain assumptions including discount rates and long-term growth rates; and • Performed sensitivity analyses over key assumptions, principally revenue growth rate, terminal value multiple and discount rates, in order to assess the potential impact of a range of possible outcomes. <p>We also reviewed the adequacy of the Group's disclosures in relation to this included in the notes to the accompanying consolidated financial statements.</p>

Independent auditor's report to the shareholders of Kingdom Holding Company (continued)

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Report of the Group, but does not include the consolidated financial statements and our auditor's report thereon, which is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual Report of the Group, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, and the applicable requirements of the Regulations for Companies and the Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Group's audit committee is responsible for overseeing the Group's financial reporting process.

Independent auditor's report to the shareholders of Kingdom Holding Company (continued)

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

Independent auditor's report to the shareholders of Kingdom Holding Company (continued)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

PricewaterhouseCoopers



Omar M. Al Sagga
License Number 369

31 March 2019

KINGDOM HOLDING COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(All amounts in Saudi Riyals thousands unless otherwise stated)

		As at 31 December	
	Note	2018	2017
Assets			
Current assets			
Cash and cash equivalents	6	953,429	1,293,432
Investments at fair value through profit or loss ("FVTPL")	7	3,763	22,650
Trade and other receivables	8	477,985	414,952
Prepayments and other current assets	9	206,360	312,114
Due from related parties	10.1	129,431	141,184
Assets held for sale	11	44,357	477,210
Total current assets		1,815,325	2,661,542
Non-current assets			
Investments at fair value through profit or loss ("FVTPL")	7	2,606,096	907,517
Investments at fair value through other comprehensive income ("FVOCI")	12	7,873,434	11,211,596
Equity-accounted investees	13	19,158,568	19,230,889
Investment properties	14	4,198,664	4,219,808
Property and equipment	15	7,114,581	7,964,079
Goodwill and intangible assets	16	1,938,330	2,394,212
Deferred tax asset	21	9,025	37,992
Other long term assets	17	156,673	138,565
Total non-current assets		43,055,371	46,104,658
Total assets		44,870,696	48,766,200
LIABILITIES			
Current liabilities			
Borrowings	18	4,021,510	409,858
Accounts payable, accrued expenses and other current liabilities	19	528,363	443,849
Zakat and income tax payable	20	400,405	457,154
Due to related parties	10.1	117,909	135,493
Dividends payable	36	163,985	-
Total current liabilities		5,232,172	1,446,354
Non-current liabilities			
Borrowings	18	9,255,415	13,213,247
Deferred tax liabilities	21	201,315	193,729
Employee benefit obligations	33	180,955	177,059
Other long term liabilities		151,768	61,448
Total non-current liabilities		9,789,453	13,645,483
Total liabilities		15,021,625	15,091,837
Net assets		29,849,071	33,674,363
EQUITY			
Share capital	22	37,058,823	37,058,823
Statutory reserves	23 a	733,589	665,426
Retained earnings		1,271,981	1,314,057
Fair value reserve for investments at FVOCI	12 b	(11,045,965)	(7,778,557)
Other reserves	23 b	(68,019)	263,116
Equity attributable to shareholders of the Company		27,950,409	31,522,865
Non-controlling interests	24	1,898,662	2,151,498
Total equity		29,849,071	33,674,363

The notes on pages 15 to 51 form an integral part of these consolidated financial statements.

KINGDOM HOLDING COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF INCOME
(All amounts in Saudi Riyals thousands unless otherwise stated)

		<u>Year ended 31 December</u>	
	Note	2018	2017
Revenues			
Hotels and other operating revenues		1,943,922	1,730,485
Dividends income	25	173,169	110,214
Gain on investments at FVTPL	26	461,047	515,278
Total revenues		2,578,138	2,355,977
Hotel and other operating costs		(1,342,330)	(1,282,236)
Gross profit		1,235,808	1,073,741
General, administrative and marketing expenses	27	(519,501)	(553,808)
Share of results from equity-accounted investees	13 a	1,176,330	261,941
Other (losses)/gains, net	28	(331,447)	682,382
Income from operations		1,561,190	1,464,256
Financial charges	29	(522,753)	(431,823)
Profit before zakat and income tax		1,038,437	1,032,433
Income tax	20	(73,516)	(12,266)
Zakat	20	(264,119)	(389,450)
Profit for the year		700,802	630,717
Profit for the year attributable to:			
- Owners of the Company		681,633	663,569
- Non-controlling interests		19,169	(32,852)
		700,802	630,717
Basic and diluted earnings per share (Saudi Riyals)	35	0.19	0.18

The notes on pages 15 to 51 form an integral part of these consolidated financial statements.

KINGDOM HOLDING COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(All amounts in Saudi Riyals thousands unless otherwise stated)

		<u>Year ended 31 December</u>	
	Note	2018	2017
Profit for the year		700,802	630,717
Other comprehensive (loss) / income:			
<i>Items that will not be reclassified to profit or loss</i>			
Re-measurements of post-employment benefit obligations		(597)	2,508
Net changes in fair value of investments at FVOCI	12 b	(3,267,013)	2,501,239
<i>Items that may be reclassified subsequently to profit or loss</i>			
Share in other comprehensive loss of equity-accounted investees	13 a	(9,946)	(45,844)
Exchange differences on translation of foreign operations		(333,826)	843,768
Total comprehensive (loss) / income for the year		(2,910,580)	3,932,388
Total comprehensive (loss) / income for the year attributable to:			
- Owners of the Company		(2,916,515)	3,945,653
- Non-controlling interests	24	5,935	(13,265)
		(2,910,580)	3,932,388

The notes on pages 15 to 51 form an integral part of these consolidated financial statements.

KINGDOM HOLDING COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
 (All amounts in Saudi Riyals thousands unless otherwise stated)

	Share capital	Statutory reserve	Retained earnings	Fair value reserve for investments at FVOCI	Other reserves	Equity attributable to shareholders of the Company	Non-controlling interests	Total equity
Balance at 1 January 2018	37,058,823	665,426	1,314,057	(7,778,557)	263,116	31,522,865	2,151,498	33,674,363
Profit for the year								
Net changes in fair value of investments at FVOCI (Note 12b)	-	-	681,633	-	-	681,633	19,169	700,802
Realized gain transferred to retained earnings on disposal of investments at FVOCI (Note 12b)	-	-	-	(3,267,013)	-	(3,267,013)	-	(3,267,013)
Exchange differences on translation of foreign operations and others	-	-	395	(395)	-	-	-	-
Share in other comprehensive loss of equity-accounted investees (Note 13a)	-	-	-	-	(321,189)	(321,189)	(13,234)	(334,423)
Total comprehensive income	-	-	682,028	(3,267,408)	(9,946)	(9,946)	-	(9,946)
Transfer to statutory reserve	-	68,163	(68,163)	-	-	-	-	-
Decrease in non-controlling interests	-	-	-	-	-	-	(258,771)	(258,771)
Transactions with owners in their capacity as owners:								
Dividends paid (Note 36)	-	-	(655,941)	-	-	(655,941)	-	(655,941)
Balance at 31 December 2018	37,058,823	733,589	1,271,981	(11,045,965)	(68,019)	27,950,409	1,898,662	29,849,071

The notes on pages 15 to 51 form an integral part of these consolidated financial statements.

KINGDOM HOLDING COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
 (All amounts in Saudi Riyals thousands unless otherwise stated)

	Share capital	Statutory reserve	Retained earnings	Fair value reserve for investments at FVOCI	Other reserves	Equity attributable to shareholders of the Company	Non-controlling interests	Total equity
Balance at 1 January 2017	37,058,823	599,069	1,270,814	(10,177,824)	(517,729)	28,233,153	1,090,889	29,324,042
Profit for the year	-	-	663,569	-	-	663,569	(32,852)	630,717
Net changes in investments at FVOCI (Note 12b)	-	-	-	2,501,239	-	2,501,239	-	2,501,239
Realized gain transferred to retained earnings on disposal of investments at FVOCI (Note 12b)	-	-	101,972	(101,972)	-	-	-	-
Exchange differences on translation of foreign operations and others	-	-	-	-	826,689	826,689	19,587	846,276
Share in other comprehensive loss of equity-accounted investees (Note 13a)	-	-	-	-	(45,844)	(45,844)	-	(45,844)
Total comprehensive income	-	-	765,541	2,399,267	780,845	3,945,653	(13,265)	3,932,388
Transfer to statutory reserve	-	66,357	(66,357)	-	-	-	-	-
Increase in non-controlling interests	-	-	-	-	-	-	1,073,874	1,073,874
Transactions with owners in their capacity as owners:								
Dividends paid	-	-	(655,941)	-	-	(655,941)	-	(655,941)
Balance at 31 December 2017	37,058,823	665,426	1,314,057	(7,778,557)	263,116	31,522,865	2,151,498	33,674,363

The notes on pages 15 to 51 form an integral part of these consolidated financial statements.

KINGDOM HOLDING COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF CASH FLOWS
(All amounts in Saudi Riyals thousands unless otherwise stated)

		Year ended 31 December	
	Note	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before zakat and income tax		1,038,437	1,032,433
<u>Adjustments for non-cash items</u>			
Depreciation	15	215,647	201,584
Share of results from equity-accounted investees	13	(1,176,330)	(261,941)
Gain on investments at FVTPL and others, net	26	(452,335)	(275,242)
Provision for doubtful receivables	8	3,888	86,082
Amortization of transaction costs	18	14,748	17,758
Impairment loss on equity-accounted investees	13	200,000	37,261
Goodwill written off	16	320,046	122,189
Gain on bargain purchase and re-measurement of existing equity interest		-	(945,396)
Gain on sale of equity-accounted investee	28	(196,368)	-
Impairment of properties and equipment	15	241,770	2,674
Other gains		(136,867)	-
Gain on sale of asset held for sale	11	(97,134)	-
Finance charges	29	522,753	431,823
Provision for employee benefit obligations	33	9,093	21,801
		507,348	471,026
Changes in operating assets and liabilities			
Trade and other receivables		(20,187)	166,336
Prepayments and other current assets		105,754	82,591
Due from related parties		2,605	(11,212)
Accounts payable, accrued expenses and other current liabilities		253,558	(120,990)
Due to related parties		(17,584)	(17,955)
Movement in investments at FVTPL		(1,227,357)	350,588
Other long term assets		(18,108)	89,302
Other long term liabilities		90,320	45,246
		(323,651)	1,054,932
Zakat and income tax paid		(394,384)	(126,956)
Employee benefit obligations paid during the year	33	(4,600)	(23,322)
Net cash (utilized in) / generated from operating activities		(722,635)	904,654
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of investments at FVOCI		71,149	372,371
Acquisition of equity-accounted investees		(65,407)	(5,802,455)
Capital repayment, disposal and dividends from associates	13	387,470	115,811
Net proceeds from sale of equity-accounted investees		749,251	49,193
Investment properties, net		21,144	72,968
Acquisition of property and equipment	15	(106,543)	(118,338)
Disposal of property and equipment		165,653	620,885
Disposal of assets held for sale		432,853	-
Net cash flow on acquisition of subsidiaries		-	117,570
Net cash generated from / (utilized in) investing activities		1,655,570	(4,571,995)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	18	2,230,360	4,188,642
Repayment of borrowings	18	(2,488,512)	(2,562,337)
Dividends paid	36	(491,956)	(655,941)
Movement in restricted cash		9,711	(9,290)
Finance charges paid		(522,830)	(431,823)
Net cash (utilized in) / generated from financing activities		(1,263,227)	529,251
Net change in cash and cash equivalents		(330,292)	(3,138,090)
Cash and cash equivalents at beginning of year	6	1,147,629	4,285,719
Cash and cash equivalents at end of year	6	817,337	1,147,629
Non-cash transaction:			
Net assets transferred on the acquisition of subsidiary	5	-	3,396,599

The notes on pages 15 to 51 form an integral part of these consolidated financial statements.

KINGDOM HOLDING COMPANY
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended 31 December 2018
(All amounts in Saudi Riyals thousands unless otherwise stated)

1 CORPORATE INFORMATION

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

The Company and its subsidiaries (the "Group") carry out activities through the entities listed below. The principal activities of the Group are hotel management and operations, commercial services, education, investment and medical services.

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

The Company's head office is located in Riyadh at the following address:
 Kingdom Holding Company
 66th Floor, Kingdom Centre
 P.O. Box 1, Riyadh 11321
 Kingdom of Saudi Arabia

At 31 December 2018, the Group had net current liabilities amounting to Saudi Riyals 3.4 billion (31 December 2017: net current assets amounting Saudi Riyals 1.2 billion). This is mainly due to certain borrowing facilities maturing before 31 December 2019. The Group has drawn down on a new loan facility subsequent to the year end, signed an additional borrowing facility and is in an advanced stage of signing another loan facility, aggregating in total to Saudi Riyals 3.4 billion. Based on the current status of negotiations of these facilities, a review of the existing investments portfolio, potential renegotiation of terms of existing loans facilities and an analysis of cash flow projections over the next twelve months, management is confident that the Group will be able to meet its obligations as and when they fall due.

These consolidated financial statements (the "consolidated financial statements") were authorized for issue by the Company's Board of Directors on 28 March 2019.

1.1 Kingdom 5-KR-11 Limited (KR-11)

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

1.2 Kingdom 5-KR-100 Limited (KR-100)

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

1.3 Kingdom 5-KR-132 Limited (KR-132)

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

	Effective Ownership Percentage	
	2018	2017
Subsidiaries		
Kingdom Hotel Investments (KHI) - Cayman Islands	100	100
Kingdom 5 KR 35 Group (George V) - France (Direct and indirect ownership through KHI)	100	100
Equity-accounted investees		
Four Seasons Holding Inc. (FSH Inc.) - Canada	47.5	47.5
Movenpick Hotels and Resorts AG (Movenpick) - Switzerland	-	33.3
Accor S.A. - France (Note 3.2)	5.8	5.8
Movenpick El Gouna	29.3	29.3

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1 CORPORATE INFORMATION (continued)

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

KR-114 is a fully owned limited liability company incorporated in the Cayman Islands. The company holds 58.96% ownership in Breezeroad Limited, a company which is incorporated in the Cayman Islands which in turn holds a 100% ownership in Savoy Hotels Limited in the United Kingdom.

1.5 Local and regional subsidiaries

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

	Effective Ownership percentage	
	2018	2017
<u>Subsidiaries</u>		
Kingdom Schools Company Limited (The School) - Saudi Arabia (Note 3.2)	47	47
Fashion Village Trading Company Limited (SAKS) - Saudi Arabia	71.8	71.8
Medical Services Projects Company Limited (MSPC) - Saudi Arabia	74	74
Consulting Clinic SAL (Clinic) - Lebanon	50.4	50.4
Real Estate Investment Company (REIC) - Saudi Arabia	69.4	69.4
Trade Centre Company Limited (TCCL) - Saudi Arabia	70.6	70.6
Kingdom Real Estate Development Company (KRED) - Saudi Arabia	100.0	100.0
<u>Equity-accounted Investees</u>		
National Air Services (NAS) - Saudi Arabia	34.1	34.1
Jeddah Economic Company (JEC) - Saudi Arabia	33.3	33.3
Banque Saudi Fransi (BSF) - Saudi Arabia (Note 3.2)	16.2	16.2

The principal activities and the various segments of the Group are described in Note 34.

2 BASIS OF PREPARATION

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by International Accounting Standard Board ("IASB") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountant ("SOCPA").

2.2 Historical cost convention

These consolidated financial statements have been prepared under the historical cost convention, except for the following:

- Investments at FVOCI and FVTPL are measured at fair value;
- Assets held for sale – measured at fair value less cost to sale; and
- Employee termination benefits – stated at present value of obligations.

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2 BASIS OF PREPARATION (continued)

2.3 New standard adopted by the Group

The Group has adopted IFRS 15 "Revenue from Contracts with Customers" from 1 January 2018, the effective date of the standard. This has resulted in a change in the revenue recognition policy of the Group in relation to its contracts with customers.

IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which was followed across several standards and interpretations within IFRSs. It established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has opted for the modified retrospective application permitted by IFRS 15 upon adoption of the new standard which requires the recognition of the cumulative impact of adoption of IFRS 15 on all contracts as at 1 January 2018 in opening retained earnings.

The Group has completed an overall assessment of all revenue streams and sources to evaluate the applicability of these revenues under IFRS 15 requirements. The final assessment concluded that there was an immaterial impact on the Group's consolidated financial statements.

2.4 New standard not yet adopted

Title of standard	IFRS 16 Leases
Nature of change	IFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the condensed statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.
Impact	The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has operating lease commitments disclosed in Note 30. The Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.
Date of adoption by the Group	Mandatory for financial years commencing on or after January 1, 2019. The Group intends to apply the modified retrospective approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

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3 USE OF JUDGEMENTS AND ESTIMATES

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical estimates and judgments that affect the reported amounts 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 the circumstances. The Group makes estimates and judgments concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and judgments that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve month period are discussed below:

3.1 Significant estimates

- Refer to Note 13: Investment in equity accounted investees – impairment testing
- Refer to Note 16: Goodwill and intangible assets – annual impairment testing

3.2 Significant judgements

Kingdom School Company

The Company is the largest shareholder in Kingdom School Company while the remaining shares are held by twelve investors. The CEO of the Group is also the CEO of the Kingdom School Company. As a result of shareholder agreements, the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. The Group has therefore determined that it has control over this entity, even though it only holds 47.5% of the voting rights.

Accor S.A France

The Group has a Board seat and other committee representations and participates in the policy making process of the company and it is the second largest strategic investor in the company. The CEO of the hospitality arm of the Group is a Board member and actively participates in the decision making process through his presence on the Board and through significant interaction with key management of Accor Hotels. The Group has therefore determined that it has significant influence over this entity, even though it only holds 5.8% of the voting rights.

Banque Saudi Fransi (BSF) – Saudi Arabia

The Group is the largest shareholder of the Bank and has Board seats and other committee representations and participates in policy making process of the bank. The CEO of the Company is also the Vice Chairman of the Board of Directors of the Bank. The Group has therefore determined that it has significant influence over this entity, even though it only holds 16.2% of the voting rights.

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4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). These consolidated financial statements are presented in Saudi Riyals which is the Company's functional and Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in the consolidated statement of income.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statement of income, within finance costs. All other foreign exchange gains and losses are presented in the consolidated statement of income on a net basis within other gains/(losses).

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at FVTPL are recognized in the consolidated statement of income as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as at FVOCI are recognized in consolidated statement of comprehensive income.

(c) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that consolidated statement of financial position;
- income and expenses for each statement of income and consolidated statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognized in consolidated statement of comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings are recognized in consolidated statement of comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to the consolidated statement of income, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.2 Principles of consolidation and equity accounting

i. Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (See Note 4.3).

Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of financial position, respectively.

ii. Associates

Associates are all entities over which the Group has significant influence but not control or joint control. Investments in associates are accounted for using the equity method of accounting (see (iii) below), after initially being recognized at cost.

iii. Equity method

Under the equity method of accounting, the investments are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses of the investee in the consolidated statement of income, and the Group's share of movements in other comprehensive income of the investee in consolidated statement of comprehensive income. Dividends received or receivable from associates are recognized as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 4.8.

4.3 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred;
- liabilities incurred to the former owners of the acquired business;
- equity interests issued by the Group;
- fair value of any asset or liability resulting from a contingent consideration arrangement; and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 Business combination (continued)

The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in the consolidated statement of income as a bargain purchase.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date. Any gains or losses arising from such re-measurement are recognized in the consolidated statement of income.

4.4 Investments and other financial assets and liabilities

i. Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income (OCI) or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses are either recorded in the consolidated statement of income or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

ii. Recognition and de-recognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are de-recognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

iii. Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial assets not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in the consolidated statement of income.

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4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.4 Investments and other financial assets and liabilities (continued)

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to the consolidated statement of income following the derecognition of the investment. Dividends from such investments continue to be recognized in the consolidated statement of income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognized in revenues in the consolidated statement of income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

iv. Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables. The amount of the loss is charged to the consolidated statement of income.

v. Financial liabilities

All financial liabilities are recognized at the time when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities are recognized initially at fair value less any directly attributable transaction cost. Subsequent to initial recognition, these are measured at amortized cost using the effective interest rate method.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognised in the consolidated statement of income.

vi. Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position where the Group currently has a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

4.5 Property and equipment

Initial recognition

Property and equipment is recognized as an asset when, and only when, it is probable that future economic benefits will flow to the Group, and the cost of the asset can be measured reliably. Property and equipment is recognized and measured initially at cost. Cost includes the fair value of the consideration given to acquire the asset (net of discounts and rebates, if any) and any directly attributable cost, such as site preparation cost, delivery, installation costs, relevant professional fees and the estimated cost of dismantling and removing the asset and restoring the site (to the extent that such cost is recognized as a provision).

When parts of property and equipment are significant in cost on comparison to the total cost of the item and such parts have a useful life different than other parts, the Group recognizes such parts as individual assets and depreciates them accordingly.

Subsequent measurement

The Group adopted the cost model to measure the entire class of property and equipment. After recognition as an asset, an item of property equipment is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

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4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.5 Property and equipment (continued)

Subsequent expenditure

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Depreciation

Useful lives are determined by management based on the expected usage of the asset, expected physical wear and tear, technical and commercial obsolescence, legal and similar limits on the use of the assets and other similar factors. Depreciation is calculated on a straight line basis over the below useful lives and is recognized in consolidated statement of income:

	Number of years
Buildings and leasehold improvements	1 to 99 years or the lease term
Equipment	5 to 13
Furniture and fixtures	4 to 20
Others	4 to 14

Land and assets under construction that are not ready for intended use are not depreciated. Leasehold improvements are depreciated on the shorter of useful life and lease term

De-recognition

Property and equipment are de-recognized when they have been disposed or no future economic benefits are expected to arise from their use or disposal. Gains or losses arising from de-recognition of an item of property and equipment is included in the consolidated statement of income at the time the item is de-recognized.

4.6 Intangible assets

Intangible assets acquired separately are measured at cost upon initial recognition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any.

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. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset, are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible asset.

Goodwill is measured as described in Note 4.3. Goodwill and brands identified on acquisitions of subsidiaries are included in intangible assets. Goodwill and brands are not amortized but are tested for impairment annually, or more frequently if events or changes in circumstances indicate that these might be impaired, and are carried at cost less accumulated impairment losses, if any. Gains and losses on the disposal of an entity include the carrying amount of goodwill or brands relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

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4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.7 Investment properties

Investment properties comprise property held for capital appreciation, long-term rental yields or both, and are carried at cost less accumulated depreciation and accumulated impairment losses, if any. Investment properties also include property that is being constructed or developed for future use as investment properties. In addition, land, if any held for undetermined use is classified as investment properties and is not depreciated. When the development of investment properties commences, it is classified as "Assets under construction" until development is complete, at which time it is transferred to the respective category, and depreciated using straight-line method at rates calculated to reduce the cost of assets to their estimated residual value over their expected useful lives of 4 to 99 years.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the consolidated statement of income as and when incurred.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are recognized and presented separately within other income (expenses) - net in the consolidated statement of income.

4.8 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded entities or other available fair value indicators.

Impairment losses of continuing operations are recognized in consolidated statement of income in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

4.9 Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and therefore are all classified as current. Trade receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognized at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest rate method.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.10 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost includes expenditures incurred in acquiring the inventories, and other costs incurred in bringing them to their existing location and condition. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

4.11 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash on hand, bank balances and short-term deposits, which are subject to an insignificant risk of changes in value less restricted cash.

4.12 Fair value measurement

The Group measures its financial instruments at fair value at the reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

4.13 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

4.14 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-zakat and income tax rate that reflects current market assessments of the time value of money and the risks specific to liability. The increase in the provision due to the passage of time is recognized as interest expense. The expense relating to a provision is presented in the consolidated statement of income.

4.15 Employee benefits and post-employment benefits

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

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4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.15 Employee benefits and post-employment benefits (continued)

Post-employment obligation

The Group operates a post-employment benefit scheme plans driven by the local laws of the countries in which the Group entities operate.

The post-employment benefits plans are not funded. Valuations of the obligations under those plans are carried out using actuarial techniques on the projected unit credit method. The costs relating to such plans primarily consist of the present value of the benefits attributed on an equal basis to each year of service and the interest on this obligation in respect of employee service in previous years.

Current and past service costs related to post-employment benefits are recognized immediately in the consolidated statement of income while unwinding of the liability at discount rates used are recorded as financial cost.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized directly in other comprehensive income and transferred to retained earnings in the consolidated statement of changes in equity in the period in which they occur.

Changes in the present value of the defined benefit obligations resulting from plan amendments or curtailments are recognized immediately in the consolidated statement of income as past service costs. End of service payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of the respective countries in which the Group operates.

4.16 Revenue recognition

The Group's main sources of revenue are from provision of hotel services (accommodations, food and beverages and banquet facilities), gains/losses from investments at FVTPL, provision of healthcare services including related sales of medical products, rental income and provision of education services.

From 1 January 2018, revenue is measured at the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities.

The Group recognizes revenue when control of the goods has transferred, being when the products are delivered to the customer, the customer has full discretion over the use or sale of such goods, and there is no unfulfilled obligation that could affect the customer's acceptance of the goods or delivery occurs when the goods have been delivered as per the terms of the contract, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied

A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. Usually there are no rights to return attached, therefore no refund liabilities are required to be recognized.

Revenue from services

Revenue is recognized, when the Group satisfies the performance obligations as specified in the contract with the customer, when the seller has transferred to the customer the promised services, either:

- at a point in time; or
- over a time basis, equivalent to the stage of the completion of service.

Rental income

The Group owns a number of subsidiaries generating revenues from renting investment properties including offices, villas, mall spaces, etc. The revenue is recognized on a straight line basis over the term of the lease taking into consideration any incentives given, the rent received in advance is recognized as contract liability. The rental contracts are relatively simple and do not contain multiple performance obligations. These contracts are fixed price contracts where the customer pays the fixed amount based on a payment schedule. If the services rendered by Group entity exceed the payment, a contract asset is recognized. If the payments exceed the services rendered, a contract liability is recognized.

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4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.17 Revenue recognition (continued)

Dividend and interest income

Dividends are received from financial assets measured at FVOCI and equity accounted investees. Dividends are recognized as revenue in the consolidated statement of income when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment. Interest income was recognized using the effective interest rate method on accrual basis.

Fair value gains on investment measured at FVTPL

The fair value gain and losses for the investments measured at FVTPL is recognized as operational revenues as the Group invests in those equity investments in its normal course of business.

Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

Upto the year ended 31 December 2017, the Group's revenue recognition policies were as follows:

Revenue from sale

Revenue from the sale of food, beverages, equity investments and other goods was recognized when it met the following criteria:

- Significant risks and rewards of ownership were transferred;
- Managerial involvement usually associated with ownership or control was given up;
- It was probable that economic benefits will flow to the Group; and
- The amount of revenue and costs was measured reliably.

Rendering services

Revenue from rendering of education, health care and other services including services in connection with hotel operations of hotel business was recognized when the outcome of the transaction could be estimated reliably. The outcome was reliable when the amount of revenue could be measured reliably, and it was probable that economic benefits will flow to the Group.

Rental income

Rental income from operating leases of investment properties including apartments, offices, villas, mall spaces, etc., was recognized on a straight line basis over the term of the lease taking into consideration any incentives given.

Interest and dividend income

Interest income was recognized using the effective interest rate method on accrual basis. Dividends were recognized when the right to receive payment was established.

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4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.18 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of income over the period of the borrowings using the effective interest rate method. Borrowing costs are recognized within finance charges in the period in which they are incurred.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

General and specific finance costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. There were no borrowings costs that required capitalization during 2018.

Borrowings are derecognized from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in consolidated statement of income as other income or finance costs.

4.19 Zakat and income tax

The Group is subject to zakat and income tax in accordance with the regulations of the General Authority of Zakat and Tax (the "GAZT"). Zakat, for the Group and its subsidiaries subject to zakat, is calculated based on higher of approximate zakat base and adjusted profit and charged to the consolidated statement of income. Income tax on the share of the adjusted profit related to the foreign shareholders in the local subsidiaries, is charged to the consolidated statement of income. Additional amounts, if any, are accounted for when determined to be required for payment.

Foreign subsidiaries and foreign branches are subject to income taxes in their respective countries of domicile, such income taxes are charged to the consolidated statement of income.

Income tax based on the applicable income tax rate is adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Withholding tax

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

4.20 Dividends

Dividend payable is recognized for the amount of any dividend declared being appropriately authorized and no longer at the discretion of the Group, on or before the end of the reporting period but not distributed at the end of the reporting period. As per the corporate laws in the Kingdom of Saudi Arabia, a distribution is authorized when it is approved by the shareholders. A corresponding amount is recognized directly in equity.

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4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.21 Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Group, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements, if any, in ordinary shares issued during the year and excluding treasury shares.

The Group does not have any share options, uncalled or partially paid shares, deferred or convertibles notes therefore there is no difference between basic and diluted earnings per share.

4.22 Leases

Leases of property and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the consolidated statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to consolidated statement of income on a straight-line basis over the period of the lease.

Lease income from operating leases where the Group is a lessor is recognized in income on a straight-line basis over the lease term. The respective leased assets are included in the consolidated statement of financial position based on their nature.

4.23 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker ("CODM").

Reportable segments are disclosed separately at least where, total revenue is more than 10% of the total revenue of the Group, or absolute amount of profit or loss is more than 10% of combined reported profit of all segments (excluding loss making segments) and combined reported loss of all segments (excluding profit making segments), or total assets are more than 10% of total assets of KHC.

4.24 Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets or investment property, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held for sale and subsequent gains and losses on re-measurement are recognized in the consolidated statement of income. Once classified as held for sale, intangible assets and property and equipment are no longer amortized or depreciated, and any equity-accounted investee is no longer equity-accounted.

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5 BUSINESS COMBINATIONS**Acquisition of Real Estate Investment Company and Trade Centre Company Limited**

During the year ended 31 December 2017, upon completion of legal formalities, KHC increased its investment in REIC from 38.9% to 69.4% and in TCCL from 36% to 70.62%. These transactions resulted in the Group recognizing REIC and TCCL as subsidiaries and derecognizing the previously held equity accounted investments.

These consolidated financial statements include the results from the dates when Group obtained control of REIC and TCCL, which were 1 June 2017 and 14 August 2017, respectively. Further, fair value of the assets acquired and liabilities assumed on acquisition of REIC and TCCL were measured on a provisional basis at the date of acquisition.

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

<u>Bargain purchase gain on acquisition</u>	REIC	TCCL	TOTAL
Assets acquired			
Current assets	82,197	265,062	347,259
Non-current assets	1,110,590	2,773,239	3,883,829
	1,192,787	3,038,301	4,231,088
Liabilities assumed			
Current liabilities	(74,100)	(223,222)	(297,322)
Non-current liabilities	(41,377)	(495,790)	(537,167)
Fair value of net assets acquired	1,077,310	2,319,289	3,396,599
Total acquisition cost	(544,074)	(1,107,920)	(1,651,994)
Non-controlling interest	(329,657)	(681,407)	(1,011,064)
Gain on bargain purchase	203,579	529,962	733,541
Total acquisition cost:			
Total consideration	125,000	272,976	397,976
Fair value of previously held equity interest	419,074	834,944	1,254,018
Total acquisition cost	544,074	1,107,920	1,651,994
Cash flow on acquisition:			
Net cash acquired with subsidiary	11,402	106,168	117,570
Cash paid in current year	-	-	-
Net cash flow on acquisition	11,402	106,168	117,570

REIC as a subsidiary contributed revenue of Saudi Riyals 47.6 million and net income of Saudi Riyals 29.8 million to the Group's results during 2017. If the acquisition had occurred on 1 January 2017, management estimates that the consolidated revenue would have been higher by Saudi Riyals 16.1 million and consolidated net income for the year would have been higher by Saudi Riyals 8.1 million.

TCCL as a subsidiary has contributed revenue of Saudi Riyals 188.2 million and net income of Saudi Riyals 41.3 million to the Group's results during 2017. If the acquisition had occurred on 1 January 2017, management estimates that the consolidated revenue would have been higher by Saudi Riyals 197.6 million and consolidated net income for the year would have been higher by Saudi Riyals 38.3 million.

During the year ended 31 December 2018, the Group has determined that the resulting intangible assets are not significant for separate recognition and also no further adjustments are required to be made to the provisional amounts previously recognized.

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6 CASH AND CASH EQUIVALENTS

	2018	2017
Cash and cash equivalents	952,448	1,288,880
Short term deposits	981	4,552
Total cash and cash equivalents	953,429	1,293,432
Less: Restricted cash	(136,092)	(145,803)
Cash and cash equivalents in the consolidated statement of cash flows	817,337	1,147,629

Short-term deposits are for varying maturity periods (between one day and three months), depending on the cash requirements of the Group, and earn interest at floating rates.

Included in the cash and cash equivalents is Saudi Riyals 60 million (2017: Saudi Riyals 11 million) deposited with a related party.

7 INVESTMENTS AT FVTPL

The Group classifies investments at FVTPL those equity investments for which it has not elected to recognize fair value gains and losses through other comprehensive income. FVTPL investments consist of internationally quoted and unquoted securities. The movement in FVTPL investments is set out below:

	2018	2017
<u>FVTPL - current assets</u>		
1 January	22,650	605,663
Disposals	(19,963)	(587,574)
Changes in fair value	1,076	4,561
31 December	3,763	22,650
<u>FVTPL - non-current assets</u>		
1 January	907,517	399,850
Additions	1,247,320	236,986
Changes in fair value	451,259	270,681
31 December	2,606,096	907,517
Total FVTPL	2,609,859	930,167

Certain investments are used as collateral against borrowings of the Group and its subsidiaries (Note 18).

During the year, the Group invested Saudi Riyals 213.6 million in Deezer, an unlisted French music streaming company, purchased additional shares amounting to Saudi Riyals 846.3 million from the majority shareholder His Royal Highness Prince Alwaleed Bin Talal Bin Abdulaziz Al Saud ("Ultimate controlling party") and also participated in a share issuance in Careem amounting to Saudi Riyals 187.4 million.

8 TRADE AND OTHER RECEIVABLES

	2018	2017
Trade receivables	644,577	596,160
Less: provision for doubtful receivables	(166,592)	(181,208)
	477,985	414,952

Movement in the provision for doubtful receivables is as follows:

	2018	2017
1 January	181,208	95,126
Charge for the year (Note 27)	3,888	86,082
Amounts written off and others	(18,504)	-
31 December	166,592	181,208

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8 TRADE AND OTHER RECEIVABLES (continued)

Due to the short-term nature of the trade receivables, their carrying amount is considered to be the same as their fair value. Also see Note 32.

Trade receivables are expected, on the basis of experience, to be fully recoverable. Generally, it is not the practice of the Group to obtain collateral over trade receivables. Thus, trade receivable balances are unsecured.

9 PREPAYMENTS AND OTHER CURRENT ASSETS

	2018	2017
Prepaid expenses and other current assets	118,886	152,748
Inventories	79,978	87,877
Investment in real estate – current portion (Note 14)	-	56,285
Advances to suppliers	5,320	9,259
Value Added Tax claims receivable	2,176	5,945
	206,360	312,114

10 RELATED PARTY TRANSACTIONS AND BALANCES

10.1 Related parties comprise the shareholders, directors, associate companies, key management personnel. Related parties also include business entities in which certain directors or senior management have an interest (other related parties).

The transactions with related parties represents rental services, management fee, maintenance and other general services rendered to or purchased from related parties of the Group. Balance due to and due from related parties are outstanding balances in lieu of such transactions. Related party balances, other than those disclosed elsewhere in these consolidated financial statements, as at 31 December are as follows:

<u>Name</u>	<u>Relationship</u>	2018	2017
Due from related parties:			
Azizia Commercial Investment Company	Affiliate	90,000	90,000
Fawaz Abdul Aziz Al Hokair & Co.	Affiliate	29,977	39,148
Others	Associate / affiliate	9,454	12,036
Total		129,431	141,184
Due to related parties:			
Kingdom Oasis	Affiliate	104,500	100,000
Four Seasons Holding Inc.	Associate	-	20,132
Accor S.A.	Associate	-	14,198
Movenpick Hotels and Resorts	Associate	-	1,163
Safari Company Limited	Service provider	5,733	-
Others	Associate / affiliate	7,676	-
Total		117,909	135,493

See Note 7 for transaction with the majority shareholder. This transaction was approved by the Board of Directors on 10 September 2018. Also see Note 6 and Note 18 for bank and borrowings balances held with a related party that is an equity-accounted investee. There are no other significant related party transactions that warrant separate disclosure in the consolidated financial statements.

10.2 Key management compensation:

	2018	2017
Short and long term benefits	31,123	40,985
Others	6,776	463
	37,899	41,448

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11 ASSETS HELD FOR SALE

The Group classified the following assets and liabilities relating to certain CGU's as held for sale:

	2018	2017
Current assets	46,822	63,254
Non-current assets	20,135	452,726
	<u>66,957</u>	<u>515,980</u>
Current and other liabilities	(22,600)	(38,770)
Net balance	<u>44,357</u>	<u>477,210</u>

See Note 15 for the transfer from property and equipment during 2018. The property classified as asset held for sale as at 31 December 2018 has been sold subsequent to the year end at an amount equal to its carrying value. The asset classified as held for sale at 31 December 2017 was disposed during the year at a gain of Saudi Riyals 97 million (Also see Note 28).

12 INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ("FVOCI")

Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Group has made an irrevocable election at initial recognition to recognize changes in fair value through OCI rather than the consolidated statement of income as these are strategic investments and the Group considered such selection to be more relevant.

(a) FVOCI investments consists of the following:

	2018	2017
International	7,228,478	10,513,483
Local and regional	644,956	698,113
	<u>7,873,434</u>	<u>11,211,596</u>

(b) The movement in FVOCI is set out below:

	2018	2017
Cost:		
1 January	18,990,153	19,151,040
Additions during the year	-	4,384
Transfer from equity-accounted investees	-	111,349
Disposals during the year	(70,754)	(276,620)
31 December	<u>18,919,399</u>	<u>18,990,153</u>

Fair value reserve for investments at FVOCI:

1 January	(7,778,557)	(10,177,824)
Unrealized (loss) / gain during the year, net	(3,267,013)	2,501,239
Unrealized gain transferred to retained earnings upon disposal	(395)	(101,972)
31 December	<u>(11,045,965)</u>	<u>(7,778,557)</u>
Net carrying amount	<u>7,873,434</u>	<u>11,211,596</u>

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13 EQUITY-ACCOUNTED INVESTEEES

(a) The movement in investments in equity-accounted investees for the years ended 31 December is as follows:

	2018	2017
1 January	19,230,889	14,123,741
Additions during the year	65,407	5,802,455
Capital repayment and dividends from associates	(387,470)	(115,811)
Disposals during the year (Note 13.1)	(577,883)	(49,193)
Share of result from associates (Note 13 (c))	1,176,330	261,941
Transfer due to business combination (Note 13.3)	-	(1,042,753)
Transfer to investment at FVOCI (Note 13.3)	-	(111,349)
Share in other comprehensive loss (Note 13 (c))	(9,946)	(45,844)
Impairment loss recognized during the year (Note 13.2)	(200,000)	(37,261)
Unrealized exchange (loss) / gain on translation	(144,582)	446,595
Other	5,823	(1,632)
31 December	19,158,568	19,230,889

13.1 During the year ended 31 December 2018, the Group sold an equity-accounted investee amounting to Saudi Riyals 577.9 million to another equity-accounted investee, resulting in a gain amounting to Saudi Riyals 196.4 million (2017: loss of Saudi Riyals 2.7 million) (Note 28).

13.2 During the year ended 31 December, 2018, the Group recorded an impairment loss on an investment in an equity-accounted investee amounting to Saudi Riyals 200 million (Note 28) assessed using value-in-use.

For the impairment in equity-accounted investee, the Group has assessed the recoverable value through value-in-use using a 5 years discounted cash flow analysis using a discount rate of 11.46% and long-term terminal growth rate of 2%. If the discount rate is increased by 0.5%, the impairment loss would increase and net income for the year would decrease by Saudi Riyals 152 million.

13.3 During the year ended 31 December 2017, the Group completed the reorganization in two of its equity-accounted investees, REIC and TCCL, as a result of which both these investments were classified as subsidiaries and consolidated from the date the Group obtained control. Also see Note 5.

Also, during the year ended 31 December 2017, the Group sold one of its investment partially and lost significant influence, as a result of which the investment was reclassified to an investment at FVOCI.

(b) Details of equity-accounted investees at 31 December are summarized as follows:

Investee name	2018		2017	
	Effective ownership %	Amount	Effective Ownership %	Amount
Banque Saudi Fransi	16.2	6,125,517	16.2	5,839,226
Four Seasons Holding Inc	47.5	4,499,946	47.5	4,392,593
Accor S.A. (Note 3)	5.8	4,040,808	5.8	3,674,349
Jeddah Economic Company	33.3	2,798,942	33.3	2,803,025
National Air Services	34.1	1,624,935	34.1	1,915,305
Mövenpick Hotels and Resorts AG	-	-	33.3	544,589
Mövenpick El - Gouna	29.3	49,926	29.3	56,034
Others	30.0-35.0	18,494	30.0-35.0	5,768
		19,158,568		19,230,889

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13 EQUITY-ACCOUNTED INVESTEEES (continued)

(c) Following is the summary financial information for the equity-accounted investments:

31 December 2018 (All amounts in Saudi Riyals millions)	NAS	JEC	Four Seasons	BSF	Accor S.A.
Non-current assets	564	10,248	11,013	86,558	39,218
Current assets	995	221	1,543	103,643	16,152
Non-current liabilities	(265)	(2,062)	(4,138)	(11,019)	(14,741)
Current liabilities	(2,399)	(19)	(686)	(148,368)	(13,041)
Equity	(1,105)	8,388	7,732	30,814	27,588
KHC's share	-	2,802	3,673	4,992	1,600
Carrying amount	1,625	2,799	4,500	6,126	4,041
Revenue	3,821	-	1,848	6,847	15,977
Net profit / (loss)	(262)	(12)	350	3,307	10,109
Other comprehensive income	(3)	-	(10)	(33)	31
Total comprehensive income	(265)	(12)	339	3,274	10,140
Share in total comprehensive income / (loss)	(90)	(4)	161	530	588

31 December 2017 (All amounts in Saudi Riyals millions)	Movenpick	NAS	JEC	Four Seasons	BSF	Accor S.A.
Non-current assets	179	781	9,681	11,053	86,612	24,380
Current assets	471	999	323	1,302	106,317	29,840
Non-current liabilities	(37)	(525)	(1,436)	(4,137)	(12,202)	(14,758)
Current liabilities	(179)	(1,993)	(168)	(641)	(149,065)	(13,303)
Equity	434	(738)	8,400	7,577	31,662	26,159
KHC's share	145	-	2,805	3,599	5,129	1,517
Carrying amount	545	1,915	2,803	4,393	5,839	3,674
Revenue	989	3,575	-	1,741	6,604	8,203
Net profit / (loss)	18	(208)	(16)	229	3,532	2,037
Other comprehensive income	-	(3)	-	136	578	(1,901)
Total comprehensive income	18	(211)	(16)	365	4,110	136
Share in total comprehensive income / (loss)	6	(72)	(5)	174	41	8

Among the equity-accounted investees mentioned above, Banque Saudi Fransi and Accor S.A. are listed entities. At 31 December 2018, the fair value of the Group's holding in these associates as per quoted prices amounts to Saudi Riyals 6,131 million and Saudi Riyals 2,626 million, respectively. For Accor S.A management has determined that no impairment is required. In reaching to this conclusion, management has applied a premium for the Board seat and governance rights, synergies measured with the quoted price, third party discounted cash flow analysis by third party parties and analysts consensus and forecast reports. The significant assumptions applied on the discounted cash flow projections are a CAGR of 5.8% to revenues, discount rate of 8.4% and EBITDA multiple of 16.4. The most sensitive assumption relates to the premium noted above. If the premium is reduced by 10%, the recoverable value would be equal to the carrying value.

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14 INVESTMENT PROPERTIES

	2018	2017
Investments in land, buildings and related infrastructure costs	4,080,133	4,150,032
Properties under construction	118,531	126,061
	<u>4,198,664</u>	<u>4,276,093</u>
Less: current portion (Note 9)	-	(56,285)
	<u>4,198,664</u>	<u>4,219,808</u>

Movement in investment properties is as follows:

	2018	2017
1 January	4,219,808	2,094,448
Acquired through business combination	-	2,255,295
Additions	2,945	-
Disposals and others, net	(24,089)	(129,935)
31 December	<u>4,198,664</u>	<u>4,219,808</u>

15 PROPERTY AND EQUIPMENT

	Land	Buildings and leasehold improvements	Equipment	Furniture, Fixtures and others	Total
Cost					
1 January	2,627,960	5,636,528	270,314	997,561	9,532,363
Additions	-	60,824	14,821	30,898	106,543
Disposals, impairment and others	(306,320)	(435,238)	(71,439)	(256,575)	(1,069,572)
31 December 2018	<u>2,321,640</u>	<u>5,262,114</u>	<u>213,696</u>	<u>771,884</u>	<u>8,569,334</u>

Accumulated depreciation					
1 January	-	916,412	136,242	515,630	1,568,284
Charge for the year	-	106,417	26,066	83,164	215,647
Disposals and others	-	(139,736)	(61,230)	(128,212)	(329,178)
31 December	-	<u>883,093</u>	<u>101,078</u>	<u>470,582</u>	<u>1,454,753</u>
Net book value at 31 December 2018	<u>2,321,640</u>	<u>4,379,021</u>	<u>112,618</u>	<u>301,302</u>	<u>7,114,581</u>

	Land	Buildings and leasehold improvements	Equipment	Furniture, Fixtures and others	Total
Cost					
1 January	3,178,203	5,179,412	333,497	950,632	9,641,744
Additions	-	24,403	14,407	76,854	115,664
Acquired under business combination	135,000	1,264,078	150	130,351	1,529,579
Disposals and others	(685,243)	(831,365)	(77,740)	(160,276)	(1,754,624)
31 December 2017	<u>2,627,960</u>	<u>5,636,528</u>	<u>270,314</u>	<u>997,561</u>	<u>9,532,363</u>
Accumulated depreciation					
1 January	-	982,883	173,903	538,523	1,695,309
Charge for the year	-	113,159	29,436	58,989	201,584
Disposals and others	-	(179,630)	(67,097)	(81,882)	(328,609)
31 December	-	<u>916,412</u>	<u>136,242</u>	<u>515,630</u>	<u>1,568,284</u>
Net book value at 31 December 2017	<u>2,627,960</u>	<u>4,720,116</u>	<u>134,072</u>	<u>481,931</u>	<u>7,964,079</u>

Certain land and buildings have been collateralized against term loans (Note 18).

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15 PROPERTY AND EQUIPMENT (continued)

During the year ended 31 December 2018, the Group has sold certain properties at a loss amounting to Saudi Riyals 239 million (2017: Nil). Also another property is expected to be sold and management has determined that the criteria for reclassification to assets held for sale has been met and accordingly transferred this property to assets held for sale. In doing so, an impairment loss amounting to Saudi Riyals 58 million (2017: Nil) has been recognized. The impairment was assessed with reference to offers received for the sale of this property. Also see Note 11.

16 GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets comprise the following:

	2018	2017
Goodwill	1,224,746	1,581,060
Other intangible assets	713,584	813,152
	<u>1,938,330</u>	<u>2,394,212</u>

Movement in goodwill and other intangible assets is set out below:

	2018	2017
1 January	2,394,212	1,692,970
Step acquisition of equity-accounted investee	-	758,956
Goodwill written off	(320,046)	(122,189)
Currency translation adjustments and others	(135,836)	64,475
31 December	<u>1,938,330</u>	<u>2,394,212</u>

The goodwill pertains to the Group's investment in foreign subsidiaries. In line with the disposal and impairment of properties in one of its major subsidiary as explained in Note 15, the Group has written-off the related goodwill allocated to these properties amounting to Saudi Riyals 320 million (2017: Saudi Riyals 122.2 million).

Other intangible assets principally include brand and management contracts that relate to subsidiaries that operate under the hotel segment. Intangible assets with definite lives are amortized over their useful economic lives ranging from 3 to 5 years. On completion of the purchase price allocation relating to the step-acquisition of an equity-accounted investee during July 2016, the Group recognized an indefinite life intangible asset (brand) amounting to GBP 150 million (Saudi Riyals 708 million). This is due to the hotel being considered a trophy asset and management concluding that the benefits will be for an indefinite period. Therefore the brand is not amortized but tested for impairment annually.

(i) Basis of determining recoverable amounts and key assumptions for brand and goodwill impairment:

Hotels

The recoverable amounts have been determined based on value-in-use, using either discounted cash flow analysis, or based on expert valuation reports. The hotel is the lowest level within the Group at which goodwill is monitored for internal management purposes. The cash flow projections are based on financial budgets that are approved by management. These cash flow projections are for a period of 5 years. Cash flows beyond 5 years are extrapolated using growth rates not exceeding the long-term growth rates of the economies in which these hotels operate. The key assumptions are that the hotels will continue their status as premier hotels, occupancy rate and average rate per rooms are based on management's assumption of achieving a stabilized level of performance considering the political and economic environment of the countries in which the hotels operate.

The discount rate and terminal capitalization rates ranged between 6.50% and 2.9% to 3%, respectively, depending on the geographical territories in which the hotels are located.

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(ii) Sensitivity to changes in assumptions:

Management determined forecasts based on past performance and its expectations of market development. The discount rates used reflect management's estimate of the specific risks relating to the segment. With regard to the assessment of the value-in-use, management believes that any reasonable change in any of the key assumptions above would not cause the carrying value of the unit including goodwill and brand to materially exceed its recoverable amount. If the terminal capitalization rates of one CGU is increased from 3% to 9.4% and from 2.9% to 3.4% for another CGU, the recoverable values will equal the carrying amounts.

17 OTHER LONG TERM ASSETS

	2018	2017
Long term advances	151,364	104,157
Value Added Tax claims receivable	-	30,052
Refundable deposits	435	453
Others	4,874	3,903
	156,673	138,565

18 BORROWINGS

The outstanding borrowings balance is presented as follows:

	2018	2017
<u>Current</u>		
Short-term loans	-	2,208
Current portion of term loans	4,021,510	407,650
Current borrowings	4,021,510	409,858
<u>Non-current</u>		
Term loans, including long-term revolving facilities	9,255,415	13,213,247

The movement in the borrowings is as follows:

	2018	2017
1 January	13,651,390	11,173,857
Additions	2,230,360	4,195,169
Acquired on business combination	-	686,200
Repayments	(2,488,512)	(2,562,337)
Foreign currency translation adjustments	(102,776)	158,501
31 December	13,290,462	13,651,390
Unamortized transaction costs:		
1 January	(28,285)	(39,516)
Addition	-	(6,527)
Amortization	14,748	17,758
31 December	(13,537)	(28,285)
Net carrying amount	13,276,925	13,623,105

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18 BORROWINGS (continued)

Details of borrowings by entity are as follows:

	2018	2017
Kingdom 5-KR-11 Limited	5,245,591	5,057,763
Kingdom Holding Company	4,502,545	4,303,123
Kingdom 5-KR-35 Group	1,494,095	1,551,054
Kingdom KR-114 Limited	1,269,472	1,610,661
Kingdom Hotel Investments	233,154	433,671
Others	532,068	666,833
	13,276,925	13,623,105

Included in the total borrowings are borrowings from a related party amounting to Saudi Riyals 357 million (2017: Saudi Riyals 216 million).

Following is a summary of the Group's significant borrowings:

Kingdom 5-KR-11 Limited

Loans in Kingdom 5-KR-11 limited carry floating interest rates, which are calculated on a base rate plus a spread based on the currency of the loan. The facilities are secured by certain investments at FVOCI and other investments. The aggregate maturities of these loans, based on their respective repayment schedules, are spread over a period of 5 years. These loans are denominated in US dollars. Loan agreements include certain financial covenants with respect to minimum tangible net worth, consolidated EBIT, consolidated net commission costs, loan to value ratio, minimum standalone and consolidated total assets, debt service ratio and interest coverage ratio. The Group has complied with all its covenants.

Kingdom Holding Company

Loans in Kingdom Holding Company ("KHC") were obtained from commercial banks and consist of several facilities including syndicated loans and revolving credit facilities. These loans carry borrowing costs based on Saudi Inter Bank Offered Rate ("SIBOR") and London Inter-Bank Offered Rate ("LIBOR") plus a spread and are secured against certain investments by the Company. The aggregate maturities of these loans, based on their respective repayment schedules, are spread over a period of 5 years. Loan agreements include certain financial covenants with respect to minimum tangible net worth, consolidated EBIT, consolidated net commission costs, loan to value ratio, minimum standalone and consolidated total assets, debt service ratio and interest coverage ratio. The Group has complied with all its covenants. The carrying values of the borrowings are denominated in following currencies:

	2018	2017
Saudi Riyals	1,392,735	1,259,018
US Dollars	3,109,810	3,044,105
	4,502,545	4,303,123

Kingdom 5-KR-35 Group

Loans in Kingdom 5-KR-35 Group are secured by a mortgage over George V hotel property. The loan agreements include certain financial covenants, such as debt service coverage ratio, assets value coverage ratio. The Group has complied with all its covenants. The loans carry floating interest rates (based on LIBOR) and are due to mature by 2023. These loans are primarily denominated in Euro.

Kingdom KR-114 Limited

Loans in Kingdom KR-114 Limited have different maturities within the next two years and carry interest rates which are either fixed or floating based on LIBOR. These loans are denominated in GBP. The loans are secured through registered mortgages and liens over the Savoy hotel. Loan agreements include certain financial covenants with respect to debt service ratio and interest coverage ratio. The Group has complied with all its covenants.

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18 BORROWINGS (continued)**Kingdom Hotel Investments**

Loans in Kingdom Hotel Investments have different maturities within the next eleven years and carry floating interest rates. These rates are calculated on base rate plus a spread. The facilities are secured through registered mortgages and liens over several properties, deed of support and order notes. Loan agreements include certain financial covenants with respect to debt service ratio and interest coverage ratio. The Group has complied with all its covenants. The carrying values of the borrowings are denominated in following currencies:

	2018	2017
US Dollars	-	120,608
Moroccan Dirhams	163,612	187,871
UAE Dirhams	69,542	125,192
	233,154	433,671

Other loans

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

All the Group's borrowings are secured against certain property and equipment, investment properties, equity-accounted investees, investments at FVTPL and investments at FVOCI.

19 ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	2018	2017
Accounts and other payables	205,827	164,040
Accrued expenses	178,943	142,546
Security deposits	49,717	31,468
Advance from customers	28,393	45,034
Contract liabilities	22,631	22,263
Others	42,852	38,498
	528,363	443,849

20 ZAKAT AND INCOME TAX PAYABLE

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

	Note	2018	2017
Zakat	20(b)	264,119	389,450
Income tax	20(c)	21,565	(20,798)
Withholding tax on foreign dividends	20(c)	51,951	33,064
		337,635	401,716

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20 ZAKAT AND INCOME TAX PAYABLE (continued)

(b) Zakat

The zakat obligations for the year represent the estimated zakat due on the Company and its local subsidiaries. The movement in the zakat provision is as follows:

	2018	2017
1 January	437,771	99,978
Acquired on business combination	-	20,773
Charge for the year	264,119	389,450
Paid during the year	(331,859)	(72,430)
31 December	370,031	437,771

Zakat for the year represents the amount due on the Company and its local subsidiaries. The significant components of zakat base under zakat and income tax regulations are principally comprise of equity, provisions at the beginning of year, long-term borrowings and adjusted net income, less deduction for the net book value of long-term assets and certain other items. The differences between the financial and adjusted net income are mainly due to provisions and other items which are not allowed in the calculation of adjusted net income subject to zakat.

Status of final assessments

Since 2012, the Company was contesting its zakat and income tax assessment for the years from 2007 to 2010. During 2018, there was a settlement agreed with the GAZT amounting to Saudi Riyals 200 million. Also during 2018, the Company received assessment from the GAZT for the years 2011 and 2012 resulting in additional zakat assessment. Management has contested the matters included in the assessment and filed an appeal providing its detailed arguments against the assessment. An agreement has been reached with the GAZT for these two years and the payment has been made on 28 January 2019. Based on advice from the zakat consultant and based on precedence made as a result of the settlements made during 2018, management believes that the eventual outcome for the years from 2013 to 2017 (though not yet formally assessed) will not result in any additional material liability. The Company has filed its zakat returns up to the year ended 31 December 2017 with the GAZT.

(c) Income tax

The Group's subsidiaries which are incorporated outside the Kingdom of Saudi Arabia are subject to tax laws of the respective country of incorporation.

	2018	2017
1 January	19,383	61,643
Income tax charge / (reversal)	21,565	(20,798)
Withholding tax on foreign dividends	51,951	33,064
Paid during the year	(62,525)	(54,526)
31 December	30,374	19,383

There are no significant pending income tax assessments or tax notices received in relation to the operations of subsidiaries in foreign countries by their respective taxation authorities.

There are no significant pending zakat assessments received in relation to the operations of subsidiaries in the Kingdom of Saudi Arabia by the GAZT.

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21 DEFERRED TAX

Deferred tax liabilities and assets relate to the following:

	2018	2017
<u>Deferred tax liabilities</u>		
Property, equipment and intangible assets	174,584	190,825
Others	26,731	2,904
	<u>201,315</u>	<u>193,729</u>
Deferred tax asset (mainly on accumulated losses)	<u>(9,025)</u>	<u>(37,992)</u>

22 SHARE CAPITAL

The share capital consists of 3,706 million authorized and issued shares at par value of Saudi Riyals 10 each.

23 RESERVES

(a) Statutory reserves:

Articles 129 and 130 of Regulations for Companies require companies to set aside 10% of net profits for the year as statutory reserves until the reserve reaches 30% of the share capital.

(b) Other reserves:

The following table shows a breakdown of other reserves and the movement in these reserves during the year:

	Share in other comprehensive income of equity-accounted investees	Exchange differences on translation of foreign operations and equity-accounted investees	Re-measuring of employee benefit obligations	Total
At 1 January 2017	(29,291)	(474,495)	(13,943)	(517,729)
Share in other comprehensive loss	(47,155)	-	-	(47,155)
Actuarial losses on employee benefit obligations during the year	1,311	-	2,457	3,768
Unrealized exchange gain for the year on translation	-	824,232	-	824,232
At 31 December 2017	<u>(75,135)</u>	<u>349,737</u>	<u>(11,486)</u>	<u>263,116</u>
Share in other comprehensive loss	(4,667)	-	-	(4,667)
Actuarial losses on employee benefit obligations during the year	(5,279)	-	(597)	(5,876)
Unrealized exchange loss for the year on translation	-	(320,592)	-	(320,592)
At 31 December 2018	<u>(85,081)</u>	<u>29,145</u>	<u>(12,083)</u>	<u>(68,019)</u>

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24 NON-CONTROLLING INTERESTS

This balance represents the share of the non-controlling interest in the following subsidiaries:

<u>Name of the subsidiary</u>	<u>2018</u>		<u>2017</u>	
	<u>Total non-controlling interest</u>	<u>Share in total comprehensive loss/(income)</u>	<u>Total non-controlling interest</u>	<u>Share in total comprehensive loss/(income)</u>
Trade Centre Company Limited	712,479	19,898	692,581	(10,963)
Kingdom KR-114 Limited	498,225	(33,136)	531,361	23,667
Real Estate Investment Company	345,130	8,504	336,626	(7,602)
Kingdom Hotel Investments	54,859	(565)	295,504	(32,422)
Medical Services Projects Company Limited	220,211	7,811	221,644	(4,041)
Kingdom Schools Company Limited	53,274	7,509	55,212	(7,260)
Consulting Clinic SAL	24,535	-	24,535	-
Fashion Village Trading Company Limited	(10,051)	(4,086)	(5,965)	51,886
	<u>1,898,662</u>	<u>5,935</u>	<u>2,151,498</u>	<u>13,265</u>

25 DIVIDEND INCOME

	<u>2018</u>	<u>2017</u>
International	<u>173,169</u>	<u>110,214</u>

26 GAIN ON INVESTMENTS AT FVTPL

	<u>2018</u>	<u>2017</u>
Realized gain on sale of investments at FVTPL	8,712	240,036
Unrealized gain on investments at FVTPL	<u>452,335</u>	<u>275,242</u>
	<u>461,047</u>	<u>515,278</u>

27 GENERAL, ADMINISTRATIVE AND MARKETING EXPENSES

	<u>2018</u>	<u>2017</u>
Employee cost	135,500	150,187
Professional fees	137,380	118,457
Utilities and office expenses	44,447	38,238
Selling and marketing expenses	39,646	43,555
Repairs and maintenance	25,158	22,302
Provision for doubtful debts (Note 8)	3,888	86,082
Others	<u>133,482</u>	<u>94,987</u>
	<u>519,501</u>	<u>553,808</u>

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28 OTHER (LOSSES) / GAINS, NET

	2018	2017
Gain / (loss) on disposal of equity accounted investee (Note 13.1)	195,368	(2,674)
Gain on sale of asset held for sale (Note 11)	97,134	-
Impairment of property and equipment and related goodwill (Note 15, 16)	(561,816)	(122,189)
Impairment of equity-accounted investee (Note 13.2)	(200,000)	(37,261)
Gain on bargain purchase (Note 5)	-	733,541
Gain on re-measurement of existing equity interest in REIC and TCCL (Note 13.3)	-	211,855
Other gains / (losses)	136,867	(100,890)
	(331,447)	682,382

Other gains for the year ended 31 December 2018 mainly relates to reversal of certain accrued professional charges which were not required after finalization of the purchase price allocation relating to the two subsidiaries.

29 FINANCIAL CHARGES

Finance charges consist of interest payments on outstanding borrowings net of finance income, which is not significant for separate disclosure, arising from cash balance and short term deposits held at banks.

30 COMMITMENTS

(a) Capital commitments

The Group has on-going activities to construct and renovate hotels and other properties, with various stages of completion. The total outstanding capital commitments relating to such developments as of 31 December 2018 amounted to Saudi Riyals 278 million (2017: Saudi Riyals 298 million).

(b) Operating lease commitments

The Group has various commitments under operating leases for offices and business premises. Future minimum annual payments under these leases are as follows:

	2018	2017
Within one year	309	355
1 to 5 years	1,285	1,401
More than 5 years	1,047	1,154
	2,641	2,910

31 CONTINGENCIES

The Group is a defendant in various legal claims arising in the normal course of business. Based on the information presently available, there are no significant claims against the Group requiring a provision. Management believes that the provisions maintained for such claims are adequate. Any additional liabilities including any potential zakat assessments (Note 20) that may result in connection with other claims are not expected to have a material effect on the Group's financial position or results of operations.

At 31 December 2018, the Group has outstanding letters of guarantees amounting to Saudi Riyals 42.5 million (2017: Saudi Riyals 42.5 million) issued in the normal course of business. In addition, the Group's share in the equity-accounted investees' letters of guarantees, credits and acceptance as of 31 December 2018 amounted to Saudi Riyals 9,100 million (31 December 2017: Saudi Riyals 9,439 million).

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32 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group holds the following financial instruments:

	Note	2018	2017
Financial assets			
Financial assets at amortized cost			
Trade and other receivables	8	477,985	414,952
Due from related parties	10.1	129,431	141,184
Cash and cash equivalents	6	953,429	1,293,432
Financial assets at FVOCI			
Investments at FVOCI	12	7,873,434	11,211,596
Financial assets at FVTPL			
Investments at FVTPL	7	2,609,859	930,167
Financial liabilities			
Financial liabilities at amortized cost			
Accounts payables and accrued expenses	19	407,401	328,849
Due to related parties	10.1	117,909	135,493
Borrowings	18	13,276,925	13,623,105
Dividends payable		163,985	-

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risks and equity price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by senior management under policies approved by the Board of Directors.

Currency risk

Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities denominated in a currency that are not the functional currency of the relevant Group entity. Majority of the Group's assets and liabilities are denominated in the functional currency of the respective subsidiaries, therefore the related currency risk is minimal. At the parent entity level, the assets and liabilities are denominated in Saudi Riyals or US Dollars. The Saudi Riyal is currently pegged to the US Dollar, therefore there is no risk on US Dollars denominated assets and liabilities.

Interest rate risk

The Group's main interest rate risk arises from long-term borrowings with variable rates, which expose the Group to cash flow interest rate risk. The Group monitors closely the movement in interest rates and manages its risk accordingly. It is not a practice to hedge the interest rate risk.

An increase / decrease in interest rate of 1%, with all other variables held constant, would have resulted in a decrease/increase in the Group's consolidated net income amounting to Saudi Riyals 97.6 million.

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32 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Equity price risk

The Group's listed and unlisted equity investments are susceptible to market price risk, arising from uncertainties about fair values of investment securities. The Group manages equity price risk through diversification and setting limits on investments. The exposure to equity securities and its impact on equity is detailed in the table below with a % decrease / increase in equity prices.

Markets	2018	Sensitivity	
			Percentage
- US listed securities	8,903,575	89,036	1%
- US unlisted securities	49,560	496	1%
- Middle East	1,316,608	13,166	1%
- Europe	213,550	2,135	1%
	10,483,293	104,833	

Markets	2017	Sensitivity	
			Percentage
- US listed securities	10,986,123	109,861	1%
- US unlisted securities	124,633	1,246	1%
- Middle East	1,031,007	10,310	1%
	12,141,763	121,417	

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and will cause the other party to incur a financial loss. Credit risk arises from cash and cash equivalents as well as credit exposures to trade and other receivables and balances due from related parties.

Credit risk is managed on a Group basis. For banks and financial institutions, only independently rated parties with a minimum rating of A2 are accepted.

Sales to retail customers are required to be settled in cash or using major credit cards, mitigating credit risk. There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions.

For other customers, where there is no independent rating, the Group assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are then assigned.

Balances due from related parties are usually considered low credit risk due to the low probability of default.

The receivables are shown net of allowance for impairment. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP, unemployment rate, inflation rate and interest rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusted the historical loss rates based on expected changes in these factors.

The Group evaluates the concentration risk with respect to trade receivables which are significantly located in the Kingdom of Saudi Arabia. Trade receivables balance comprises of 83% in KSA, 7% in GCC (other than KSA) and 10% in other countries (2017: 88% in KSA, 6% in GCC (other than KSA) and 6% in other countries). The nature of businesses of the Group owned entities does not expose it to credit concentration risk.

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32 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)*Credit risk (continued)*

The table below shows the maximum exposure to credit risk for the significant components of the consolidated statement of financial position:

	Note	2018	2017
Bank balances and short term deposits	6	953,429	1,293,432
Trade and other receivables	8	477,985	414,952
Due from related parties	10.1	129,431	141,184
		1,560,845	1,849,568

The receivable balances are monitored with the result that the Group's exposure to bad debts is not significant.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot be reasonably predicted, such as natural disasters. In addition, the Group has access to credit facilities.

Cash flow forecasting is performed by management which monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance and compliance with internal ratio targets. Also see Note 1.

The table below analyses the Group's financial liabilities into the relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

2018	Less than 1 year	1 to 3 years	More than 3 years	Total
Borrowings	4,122,582	6,768,867	2,908,110	13,799,559
Accounts payable, accrued expenses and other current liabilities	407,401	-	-	407,401
Due to related parties	117,909	-	-	117,909
Dividends payable	163,985	-	-	163,985
	4,811,877	6,768,867	2,908,110	14,488,854
2017	Less than 1 year	1 to 3 years	More than 3 years	Total
Borrowings	440,326	8,929,595	4,934,669	14,304,590
Accounts payable, accrued expenses and other current liabilities	328,849	-	-	328,849
Due to related parties	135,493	-	-	135,493
	904,668	8,929,595	4,934,669	14,768,932

KINGDOM HOLDING COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2018****(All amounts in Saudi Riyals thousands unless otherwise stated)****32 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)***Capital management risk*

The Group's objectives when managing capital are to

- safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders or sell assets to reduce debt.

KHC's capital management strategy is to maintain sufficient capital so that the percentage of debt to total asset does not exceed 60% of total assets (i.e. to maintain a 40% headroom). The Board of Directors monitor the return on capital employed and the level of dividends to ordinary shareholders. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

<i>Capital management</i>	2018	2017
Total borrowings	13,276,925	13,623,105
Total assets	44,870,696	48,766,200
Debt to total asset ratio	29.59%	27.94%

Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Group's financial instruments are measured under the historical cost convention, except for investment carried at FVOCI and FVTPL which are carried at fair values.

Fair value hierarchy

Level 1: The fair value of financial instruments traded in active markets (such as trading and fair value through other comprehensive income securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

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

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

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32 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Fair value hierarchy (continued)

The following table presents the Group's financial assets measured and recognized at fair value including their levels in the fair value hierarchy at 31 December 2018 on a recurring basis:

As at 31 December 2018	Level 1	Level 2	Level 3	Total
Financial assets				
<i>Investments at FVTPL:</i>				
- United States of America	3,763	1,934,443	-	1,938,206
- Middle East	-	671,653	-	671,653
	3,763	2,606,096	-	2,609,859
<i>Investments at FVOCI</i>				
- United States of America	7,183,418	-	45,060	7,228,478
- Middle East	644,956	-	-	644,956
	7,828,374	-	45,060	7,873,434
Total financial assets at fair value	7,832,137	2,606,096	45,060	10,483,293
As at 31 December 2017	Level 1	Level 2	Level 3	Total
Financial assets				
<i>Investments at FVTPL:</i>				
- United States of America	22,650	574,623	-	597,273
- Middle East	-	332,894	-	332,894
	22,650	907,517	-	930,167
<i>Investments at FVOCI</i>				
- United States of America	10,393,386	75,037	45,060	10,513,483
- Middle East	698,113	-	-	698,113
	11,091,499	75,037	45,060	11,211,596
Total financial assets at fair value	11,114,149	982,554	45,060	12,141,763

Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include, the use of quoted market prices resulting in level 1 valuations, observable market inputs and latest transaction prices resulting in level 2 valuations.

Valuation process

The Group has a team that performs / reviews the valuations of non-property items required for financial reporting purposes, including fair values of financial instruments. This team reports directly to the Chief Investment Officer (CIO). Discussions of valuation processes and results are held between the CIO and the valuation team at least once every six months, in line with the Group's half-yearly reporting periods.

Changes in level 2 and 3 fair values are analyzed at the end of each reporting period during the half-yearly valuation discussion. There have been no transfers between level 2 and 3 and vice versa, during the year ended 31 December 2018.

Fair value of other financial instruments

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

KINGDOM HOLDING COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2018****(All amounts in Saudi Riyals thousands unless otherwise stated)****33 EMPLOYEE BENEFIT OBLIGATIONS**

	2018	2017
At 1 January	177,059	160,313
Current service cost	8,183	19,580
Interest expense	910	2,221
Total amount recognized in profit or loss	9,093	21,801
<i>Re-measurements</i>		
Gain from change in financial assumptions	(4,044)	(606)
Experience gains	3,447	(1,902)
Total amount recognized in other comprehensive income	(597)	(2,508)
Liability assumed on business combination	-	20,775
Benefit payments	(4,600)	(23,322)
At 31 December	180,955	177,059

In accordance with the provisions of IAS 19 'Employee Benefits', management has carried out an exercise to assess the present value of its obligation at 31 December 2018 and 2017, using the projected unit credit method, in respect of employees' end of service benefits payable under the local laws applicable to the respective subsidiaries and the parent company. Under this method, an assessment has been made of the employee's expected service life with the Group and the expected basic salary at the date of leaving the service.

Management has assumed average increment/promotion costs between 2% to 5% (31 December 2017: 2% to 5%). The expected liability at the date of leaving the service has been discounted to its net present value using an approximate discount rate between 2.5% to 4.9% (31 December 2017: 2.5% to 3.6%).

34 SEGMENT INFORMATION

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

Description of segments and principal activities

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

Equity investments	<p>International - The principal activity includes investments in international quoted securities</p> <p>Domestic and regional - The principal activity includes investments in securities quoted on the Saudi Stock Exchange, the regional Stock Exchanges and investments in associates other than real estate.</p> <p>Private equity - The principal activity includes investments in private equities, managed funds and other entities existing within the structure of the Group.</p>
Hotels	The principal activity of this segment includes investments in subsidiaries and associates that are in the business of managing and owning hotel properties and related activities.
Real estate	The principal activity includes investments in activities relating to ownership and development of land and real estate projects.
Healthcare	The principal activity includes hospital, pharmacy and consulting clinics.
All other segments	The principal activities include operations of Kingdom School and other trading activities carried out by the Group.

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34 SEGMENT INFORMATION (continued)

	Equity investments	Hotels	Real estate	Healthcare	All other segments	Total
2018						
Total assets	20,922,912	14,081,652	9,313,765	462,797	89,570	44,870,696
Total liabilities	9,577,981	4,481,904	826,490	104,177	31,073	15,021,625
Total revenue	634,216	1,107,054	445,693	296,236	94,939	2,578,138
Total operating costs	-	893,472	179,839	208,548	60,471	1,342,330
Net profit / (loss)	879,395	(267,693)	75,668	12,598	834	700,802
Timing of revenue recognition						
At point in time	N/A	Yes	N/A	Yes	N/A	-
Over a period of time	N/A	N/A	N/A	N/A	Yes	-
2017						
Total assets	22,411,047	16,587,436	9,063,841	451,247	252,629	48,766,200
Total liabilities	9,793,919	4,271,706	738,639	181,068	106,505	15,091,837
Total revenue	625,492	1,074,469	235,817	325,633	94,566	2,355,977
Total operating costs	-	866,801	123,522	227,919	63,994	1,282,236
Net profit / (loss)	481,716	171,871	(26,193)	10,854	(7,531)	630,717
Timing of revenue recognition						
At point in time	N/A	Yes	N/A	Yes	N/A	-
Over a period of time	N/A	N/A	N/A	N/A	Yes	-

Management believes that the inter-segment transactions for the KHC Group are insignificant and therefore have not been disclosed.

35 EARNINGS PER SHARE

Earnings per share for the years ended 31 December 2018 and 2017 has been computed by dividing the net income of Saudi Riyal 701 million (2017: 631 million) by the total number of shares outstanding during 2018 of 3,706 million shares (2017: 3706 million shares).

36 DIVIDENDS DECLARATION

The General Assembly of the Company, in its annual meeting held on 20 Ramadan 1439H (corresponding to 4 June 2018), approved quarterly cash dividends totaling to Saudi Riyals 657 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, second and third dividend distributions were made to all shareholders on record as of the date approved in the General Assembly meeting. The fourth dividend distribution was made subsequent to the year-end.

The General Assembly of the Company, in its annual meeting held on 29 Sha'ban 1438H (corresponding to 25 May 2017), approved quarterly cash dividends totaling to Saudi Riyals 657 million.

37 SUBSEQUENT EVENTS

On 25 March 2019, the Group has announced it has signed an agreement to dispose its entire investment in Careem to Uber. This transaction will result in an approximate gain amounting to Saudi Riyals 0.4 billion which will be accounted for during the year ending 31 December 2019.

The Board of Directors on 28 March 2019 proposed a distribution of quarterly cash dividends totaling to Saudi Riyals 655.9 million, subject to approval in the next Ordinary General Assembly meeting.