جدوى ريت السعودية
Jadwa REIT Saudi

ANNUAL REPORT 2018

جدوى للإستثمار
Jadwa Investment

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His Majesty
King Salman
Bin Abdulaziz Al Saud
Custodian Of The Two
Holy Mosques

His Royal Highness Prince
Mohammed Bin Salman
Bin Abdulaziz Al Saud
Crown Prince,
First Deputy Prime Minister

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Fund Manager's Message To Unitholders

Dear Unitholders,

We are pleased to present the Jadwa REIT Saudi Fund's first annual report, for the period ended 31 December 2018.

The real estate market in Saudi Arabia experienced some softness in 2018, driven by a number of factors, including supply-demand imbalances, rising interest rates and the adjustment to recent policy changes such as the VAT and expat levies. However, there was a notable pickup in some segments towards the end of the year, along with a broader improvement in economic indicators.

Compressed capitalization rates in the Fund's focus areas of Core and Core+, as well as a dearth of internal-growth opportunities, has led us to adapt the strategy to ensure we can protect and grow the dividend. This has meant looking externally for additional assets and taking a more flexible approach in terms of our main geographic search areas and conservative investment parameters.

Diversification will reduce the Fund's significant weighting towards properties in Riyadh. Moreover, provided that other quality criteria are met, we may consider assets containing more than one tenant, with shorter lease terms, or featuring larger percentages of strong but nonrated-credit tenants. That said, we are not looking to add risk without a commensurate increase in reward and will be very be selective about any such opportunities.

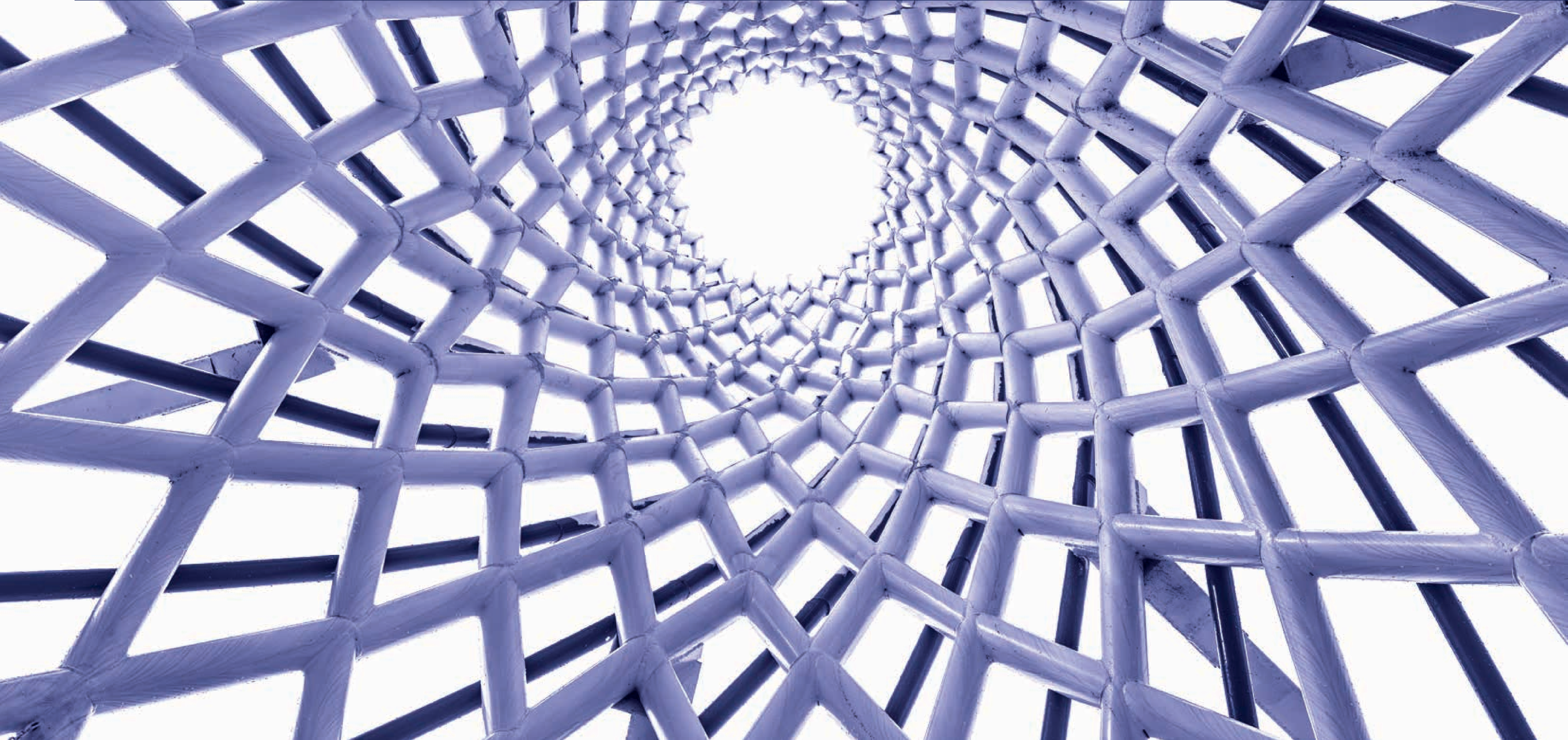
Although there have been some short-term challenges for the asset class, the longer-term picture remains bright, not least due to the government's Vision 2030 and National Transformation Program. Specific initiatives to stimulate the property sector, as well as the Kingdom's long-term infrastructure program, are major growth catalysts. The latter includes the 176-kilometer Riyadh Metro project, due to open in 2020, which will have a dramatic impact on the city's commercial and residential property landscape.

In terms of the Fund's performance, earnings per unit (as measured by Funds from operations) came in at SAR 0.65 for the reporting period. As of 31 December 2018, the average value of the Fund's property portfolio, as priced by two independent valuers, was estimated at SAR 1.69 billion. The Fund's NAV was stable over the period, ending the year at SAR 11.03 per unit. In terms of financing availability, the Fund secured a SAR 1 billion credit-line facility from Banque Saudi Fransi, for the acquisition of new assets.

Finally, we want to express our gratitude for your support, as we continue to build a world-class real estate portfolio, providing you with the very best long-term income-and-growth prospects.

Section 1

REIT AT A GLANCE



JADWA REIT SAUDI FUND - AT A GLANCE

• Third Dividend Distribution of SAR 0.18
• Obtained a Shariah-compliant credit facility of SAR 1 billion

First Dividend Distribution of SAR 0.1

Forth Dividend Distribution of SAR 0.18

FEBRUARY 2018	APRIL 2018	JULY 2018	OCTOBER 2018	JANUARY 2019	FEBRUARY 2019

Fund Listing

Acquisition of an educational facility

Second Dividend Distribution of SAR 0.18

JADWA REIT SAUDI FUND - AT A GLANCE

The Fund

Jadwa REIT Saudi Fund is a closed-ended Shariah-compliant real estate investment-traded Fund. The Fund operates in accordance with the Real Estate Investment Fund Regulations and the REIT Instructions issued by Saudi Arabia's Capital Market Authority (CMA). The Jadwa REIT Saudi Fund was successfully listed on the Tadwaul (Saudi) Stock Exchange in February 2018, as the second REIT Fund managed by Jadwa Investment, with the objective of investing in the Kingdom's main cities (with the exception of Makkah and Madinah), across a diversified range of real-estate categories. The initial equity offering was for SAR 1.58 billion.

Fund Manager

The Fund is managed by Jadwa Investment Company, a Saudi Arabian closed joint-stock company licensed by the CMA as an "authorized person" under license number 06034-37, dated 03/03/2007G (corresponding to 13/02/1428H).

Investment Objectives

The primary investment objective of the Fund is to provide its unitholders with a regular income by investing in income-generating real estate assets in Saudi Arabia, focusing on the Kingdom's main cities (excluding Makkah and Madinah).

Distribution Policy

As the Fund manager, Jadwa Investment Company pays out dividends to investors quarterly with an annual cash dividend of no less than 90% of the Fund's net profits. This does not include profits resulting from the sale of the underlying real estate assets and other investments, which may be reinvested in new real estate or used to renovate the Fund's assets.

Report Availability

This report is available on both the Jadwa Investment Company and Tadawul websites.

Units Issued

158,000,000

Debt Facility

In October 2018, the Fund announced details of a Shariah-compliant credit facility offered by Banque Saudi Fransi, a local bank. The details are as follows:

- SAR 1 billion debt facility.
- Facility period extends for five years
- The purpose of the obtained facility is to finance new acquisitions of income-generating properties located within the Kingdom's main cities (excluding Makkah and Madinah); ensuring exposure to a diversified set of real estate segments, in line with the Fund's investment strategy. Credit drawn should support the Fund's net income and cash dividends, due to the difference between the income generated from acquired properties and the underlying financing cost.
- The full amount of draw-downs shall be paid in one instalment at the end of facility period. During the facility period, only the financing costs will be paid.

New Acquisitions

In January 2019, the Fund completed the acquisition of a new asset, a school complex located in Al Nakheel District, Riyadh.

JADWA REIT SAUDI FUND - AT A GLANCE

Expense Ratio	Annual Fund Expenses	Maximum Limit as % of Average NAV	31 December 2018
	Management Fee*	0.75%	12,301,877
	Registrar Fee		450,382
	Listing Fee		320,822
	Custodian Fee		323,946
	Professional Fees		439,472
	Administrator Fee		121,225
	Auditor Fee		40,000
	Property Valuation Fees		97,994
	Board Oversight Fee		20,000
	Legal Fee		78,442
	Other Fund Fees		54,297
	Grand Total		14,248,457
	Expense Ratio	0.90%	0.90%

**Management fee is Semi-Annual*

Portfolio Characteristics		31 December 2018
	Number of Properties	5
	Uses	Residential, Logistics, Commercial, Retail, Education
	Total Land Area	377,502 sqm
	Total BUA	428,200 sqm
	Portfolio Occupancy	100%
	Number of Tenants	3
	WAULT	6.2
	Fair Market Value*	1,692,800,000
	Annual Contractual Income	129,958,200
	Net Property Yield	8.3%
	Net Fund Yield**	7.3%

**Market Value as per two independent and credited valuers*

***The annualized Net Fund Yield at par value*

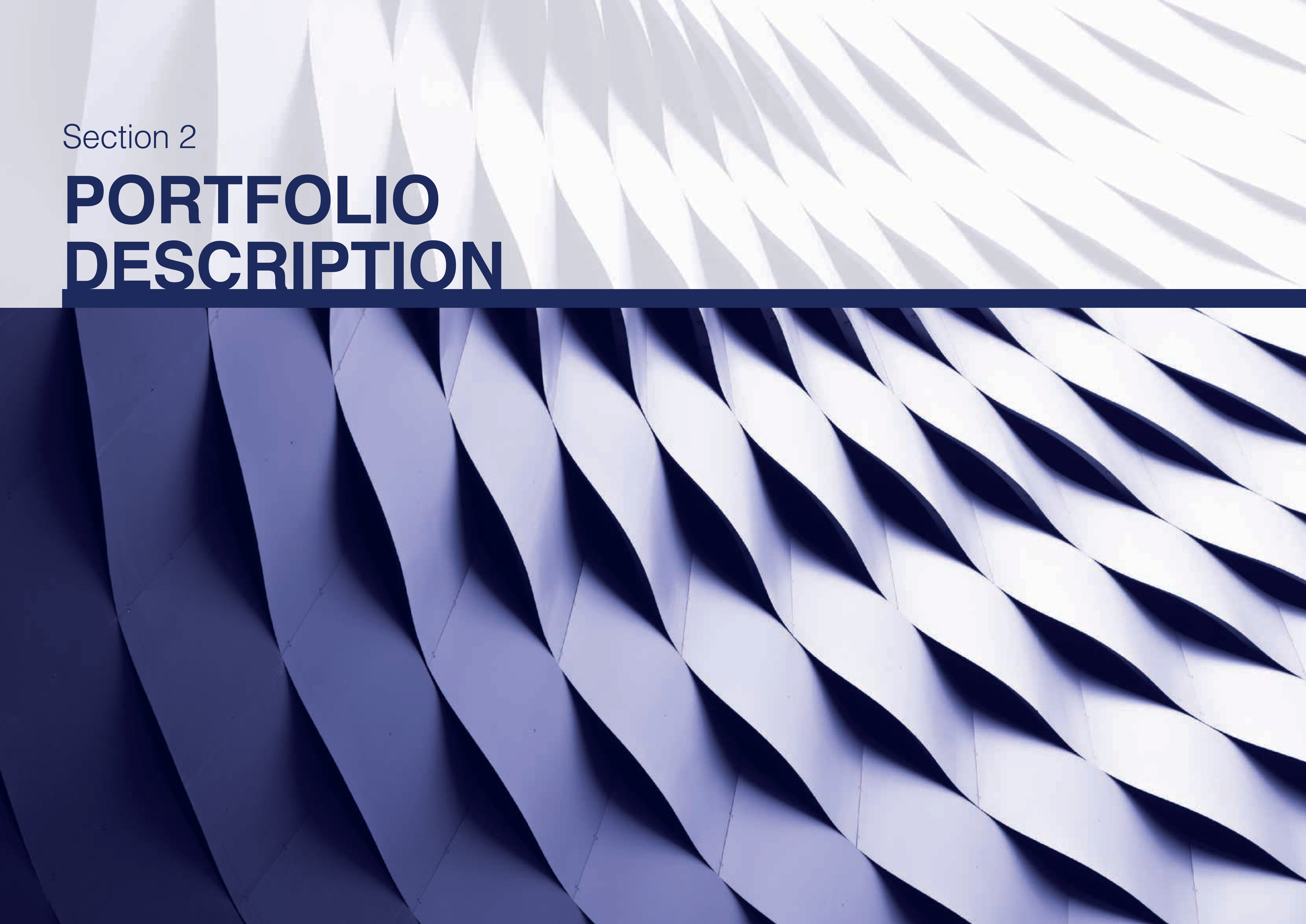
Rental Income and Earnings		31 December 2018
	Rental income*	117,561,752
	Net Profit	67,488,862
	Funds From Operations (FFO)	103,313,295
	FFO per Unit	0.65
	DPU	0.64

**The leases are FRI*

Balance Sheet		31 December 2018
	Total Assets	1,581,783,451
	Liabilities	6,974,589
	Net Asset Value	1,574,808,862
	Fair Value NAV (SAR)	11.03
	Cost NAV per Unit (SAR)	9.97
	LTV	0%

Section 2

PORTFOLIO DESCRIPTION



JADWA REIT SAUDI FUND

Portfolio Allocation by Sector

45%
Residential

18%
Offices

14%
Industrial

13%
Educational

10%
Retail

Portfolio Allocation by Asset

39%
Marvella Complex

18%
Al Yaum Tower

16%
Al Fanar Complex

14%
Al Sulay Industrial Facility

13%
Al Maarefa University

JADWA REIT SAUDI FUND

Note: Al Maarefa College was awarded a university license in 2018, which will have a positive impact on the student intake and fees.

Al Maarefa University

Al Dereyah District, Riyadh
Location

200,000,000
Acquisition Price

8.0%
Net Acquisition Yield

1
Tenant

224,600,000
Fair Value Estimation

100%
Occupancy Rate

18.8 Years
Remaining lease term

12%
of Portfolio Rental Value

- Al Maarefa University is a four-story school building with a two-level basement, mezzanine and roof floor built mainly of concrete, with a floor area of approximately 41,830 sq.m.
- Facilities include a parking area, auditorium, gymnasium, library, meeting rooms, mosque, kitchen, restaurants and stores. It is new and in good condition.
- The property is subject to a remaining 4 years rental guarantee in the form of pledge of units and assignment of dividend proceeds from the lessee.

JADWA REIT SAUDI FUND

Marvella Complex

Al Hamra District, Riyadh
Location

606,000,000
Acquisition Price

8.25%
Net Acquisition Yield

1
Tenant

645,100,000
Fair Value Estimation

100%
Occupancy Rate

2.8 Years
Remaining lease term

38%
of Portfolio Rental Value

- Marvella complex is a mixed-use development compound comprising of 594 residential apartments and 21 retail shops. It consists of several five-story buildings, each with basement parking and built mainly of concrete.
- Based on the construction permits provided to us, the compound consists of three types of residential buildings (A, B and C), a commercial building and a mosque, with a total built-up area of 154,282.52 sq.m.
- The property is subject to a 4 year rental guarantee in the form of a promissory note and or corporate guarantee from the lessee.

JADWA REIT SAUDI FUND

Al Sulay Industrial Facility

Al Sulay District, Riyadh
Location

221,680,000
Acquisition Price

9.02%
Net Acquisition Yield

1
Tenant

255,650,000
Fair Value Estimation

100%
Occupancy Rate

3.8 Years
Remaining lease term

15%
of Portfolio Rental Value

- This property is an industrial complex with 42 warehouses, office & accommodation buildings, guardhouses, a concrete perimeter wall and an asphalted open area. The total built-up area is 140,000 sq.m.
- The Office & Accommodation Building is a two-story. The ground floor is used for offices, while the first floor is for labor accommodation. The total built-up area is 3,400 sq. m. The industrial compound is equipped with a firefighting system. At the time of inspection, the complex was operational and in good condition.
- The property is subject to a 4 year rental guarantee in the form of a promissory note and or corporate guarantee from the lessee.

JADWA REIT SAUDI FUND

Al Yaum Tower

Al Dammam
Location

275,000,000
Acquisition Price

8.67%
Net Acquisition Yield

1
Tenant

303,450,000
Fair Value Estimation

100%
Occupancy Rate

3.8 Years
Remaining lease term

18%
of Portfolio Rental Value

- Al Yaum Tower is a 16-story office building with a three-level basement built mainly of concrete.
- The office tower is equipped with elevators, a centralized air-conditioning system and a firefighting system with alarm, sprinkler, fire hose cabinet and emergency exit stairs.
- It is newly constructed and in good condition, with the net-leasable area covering 19,861 sq.m.
- The property is subject to a rental guarantee in the form of pledge of units from Al Youm News Paper Co.

Al Fanar Complex

Al Khobar
Location

243,940,000
Acquisition Price

8.25%
Net Acquisition Yield

1
Tenant

264,000,000
Fair Value Estimation

100%
Occupancy Rate

5.3 Years
Remaining Lease Term

15%
of Portfolio Rental Value

- Al Fanar Complex is a mixed-use commercial, office and residential complex development, which includes the Al Fanar Mall and six residential apartment buildings.
- The ground floor is mainly used as a mall, consisting of 42 retail shops, 30 kiosks and 43 office units. The first floor serves as office space. The asset has a total built-up area of 30,651 sq. m. At the time of inspection, the mall was operational and in good condition.
- The residential apartment complex has six identical six-story buildings, with a total of 162 apartment units. The ground floor serves as parking area, while the first to fifth floors house the apartment units. Facilities & amenities include a kid's playing area, swimming pool and fitness gym. The apartments are equipped with elevators, split type air-condition and firefighting systems with alarm and sprinkler. The buildings are new and have a total built-up area of 32,523 sq.m.
- The commercial property is subject to a 4 year rental guarantee and the residential is subject to 7 year rental guarantee in the form of promissory note and or corporate guarantee from the lessee.

Section 3

MARKET OVERVIEW

MARKET COMMENTARY

Market Summary

- Saudi full-year real GDP grew by 2.2% in 2018, rebounding from a 0.9% contraction the year before. The recovery was driven by improving energy revenue, as well as continuing reforms to boost local employment and invigorate the business environment. The IMF revised its 2019 growth forecast upwards to 2.4% and estimated the Saudi economy would average annual expansion of 2.2% over the next five years, as the government's Vision 2030 and National Transformation Program (NTP) initiatives gradually take effect.
- The real estate market remained soft for most of 2018, with some segments showing a pick-up in the fourth quarter. For the year as a whole, residential sales activity and prices stayed under pressure, while subdued office occupancy rates pushed rental rates lower. Meanwhile, in hospitality, ADR and RevPAR dynamics remained challenging in most regions.
- While conditions will likely stay sluggish in the near term, this is widely seen as a temporary dip in the market's long-term upward trend. Indeed, the government has introduced a pipeline of initiatives to stimulate the property sector, which have been broadly welcomed as an important step toward arresting the market's downward trajectory.
- The 176-kilometer Riyadh Metro project, due to begin operating in 2020, could have a radical impact on the city's commercial and residential property market.
- The government has launched a US$140-billion infrastructure and transportation spending program over the next ten years, which could stimulate commercial/industrial property.

Source: Published Market Report

Residential

Cause for Optimism

The multi-faceted problems facing the Saudi residential sector persisted through 2018: supply/demand imbalances (most acutely in the mid- to low-end market), high land prices, and unaffordability of existing stock. These and other factors contributed to declining prices and transaction volumes during a large part of the year. By region there has been some minor variability in residential dynamics, with Jeddah and Riyadh still fairly subdued, and the Eastern Province (Dammam and Al Khobar) heavily correlated which the oil sector's fortunes (which strengthened over the year).

However, there are also multi-faceted causes for optimism, and the market started to reflect this towards the end of the year.

The Riyadh Metro is scheduled to open in 2019 and be in fully operational by 2021. The network could have a profound effect on residential and commercial prices in the city's property market, as urban transport projects have done in other cities worldwide. As well as boosting rental and sale prices, the opening of the metro is expected to cluster real-estate activity around stations and accelerate a generational shift in demand away from more traditional detached homes in favor of apartments, duplexes and townhouses.

Government initiatives to rejuvenate the residential market are also starting to take effect. The “white land” tax is a positive move to address the problem of idle residential plots and stimulate low- and middle-income housing development. The Mortgage Law is a significant step toward establishing a more globally recognised mortgage structure and encouraging the development of real-estate finance in Saudi Arabia. Strong international-investor demand for domestic Sukuk issues in recent years has set an encouraging precedent, indicating clear overseas' appetite for exposure to the Kingdom's evolving capital markets. Meanwhile, the establishment of public-private partnership models will see greater collaboration between the Ministry of Housing and private developers in large-scale residential projects.

Source: Published Market Report

MARKET COMMENTARY

Hospitality

Short-term pain, long-term gain

The Hospitality segment also faced some headwinds in 2018, partly due to the significant supply pipeline in most regional markets, but also as a result of government policy changes, such as the newly introduced VAT rate and municipal tax on occupied rooms. Broadly speaking, average daily rates (ADR) and revenue per available room (RevPAR) remained under pressure, while many operators remained concerned about the impact of the recent visa-fee hike on inbound travel.

However, there have been many encouraging developments too, including the introduction of the Kingdom's first electronic visa system, dubbed Sharek, and the 30-day visa extension available for Umrah pilgrims. The latter appears to have prolonged the average length of stay of overseas pilgrims, which bodes well for occupancy and other tourism-related spending.

The softness in Riyadh and the Dammam Metropolitan area (DMA) has been widely attributed to weaker corporate travel, with the latter also impacted by a more subdued leisure demand. Although Makkah and Madinah have benefited from continued strong Hajj and Umrah numbers, occupancy and pricing have remained constrained by the ongoing construction boom and attendant fierce competitive pressures, particularly at the dominant luxury end of the market. Jeddah was a relative bright spot in 2018, with notably strong performance during the summer, and a return to RevPAR growth in the final months, following two underwhelming years for local hotels.

The longer-term picture for the hospitality segment remains positive, with tourism a key pillar of Vision 2030, and the dividends from massive infrastructure projects set to come through in the coming years. Meanwhile, substantial leisure developments such as the Red Sea Project, Al Qiddiyah and Amaala are bound to put KSA on the map for international travelers.

Source: Published Market Report

Healthcare

Healthy prospects

The healthcare segment of the real-estate sector is more nascent but continues to generate significant interest both from domestic and international investors.

Demographic changes and the increasing incidence of lifestyle-related diseases are expected to significantly lift demand for healthcare services in KSA, both in the curative and preventative categories. As the Kingdom's young population ages – currently around 70% of Saudis are below the age of 40 – the need for more and better healthcare facilities will rise materially.

Currently, the average number of hospital beds per 1000 people in KSA is below global levels (2.2 vs 2.7). The gap is even wider when homing in on major cities such as Riyadh, Jeddah and Makkah, which only have 1.6, 1.5 and 1.4 beds, respectively. Just to keep up with population growth, the number of beds will have to rise by tens of thousands over the coming decades.

To address the widening supply-demand mismatch, the government is — as part of Vision 2030 and the NTP — encouraging greater private-sector participation in the healthcare sector, which in turn is opening up major opportunities for real-estate investors across the country.

Source: Published Market Report

Retail

Countering the expat exodus

Like the broader real-state sector, retail faced some challenges in 2018, both due to strong supply and transitory demand headwinds such as the VAT introduction and expat levy. According to General Authority of Statitics (GaStat) data some 1.4 million expats left from the Kingdom in the 21 months to Q3 2018, which inevitably has weighed on consumption.

In terms of sector impact, a large share of these departures has been from low-paid (SAR1500 or less per month) workers, thus having a more pronounced effect on consumer-staples businesses.

The planned increase of the expat levy and dependency fees in 2019 may widen the negative impact to consumer-discretionary goods. However, this is likely to be cushioned by the government's stimulus program, including disbursements to the Citizen's Account, the reinstatement of annual allowances and rolling over of inflation allowances for public-sector workers.

What's more, the drop in commercial property prices is likely to drive appetite for growth, particularly in the entertainment category. Since the reintroduction of cinemas in KSA last year a number of operators have announced major expansion plans, which should be a positive catalyst for other related segments, as well as the food retail and restaurant sub-sectors.

Again, there are very strong tailwinds, most conspicuously the government's push to boost the Kingdom's entertainment credentials, as reflected in the General Entertainment Authority's very ambitious events calendar for 2019.

Source: Published Market Report

MARKET COMMENTARY

Educational

New Classes in Session

Saudi Arabia is already the largest market for private-education services in the Middle East and, according to a 2018 Strategic Gears report, that market is poised to more than double in value in the next few years. The higher-education industry has been expanding at a steady single-digit rate every year between 2012-2017.

The government has instituted reforms opening the education sector to foreign ownership, and allowing Saudi students to enrol in private international schools as part of its plan to boost the market share of private education to 25% by 2020. That compares with 13% now, which is among the lowest in the region. This, in turn, will feed into the broader goal of widening local expertise, boosting local employment and diversifying the Saudi economy away from hydrocarbons.

Demographics is a Fundamental driver for this segment, with the Kingdom's population distribution still heavily weighted towards younger generations. Strong population growth in key urban areas such as Riyadh and Jeddah, is intensifying the strains on existing schools. At the same time, continued underperformance in international education-quality rankings has created a sense of urgency among Saudi policymakers.

To meet its goals, the country will need almost a thousand new private schools by 2025. The Saudi student population is forecast to increase by 3.5% a year through 2025, which amounts to 2.1 million more public and private-school seats over the next seven years.
It's an ambitious target, but research shows that Saudi parents are increasingly willing to spend money on quality education.

Consumer spending on education increased by 13% between 2013 and 2017. Meanwhile, the Kingdom only has seven international schools per million people, compared with the GCC average of 31, indicating a significant opportunity for companies ready to meet surging demand.

Source: Published Market Report

Offices

Room to Grow

The prime office sector continued to outperform the broader property market in 2018, due in large part to the shortage of top-tier supply. However, this is unlikely to extend beyond the short term because upcoming prime projects scheduled for completion – such as the King Abdullah Financial District in Riyadh, Jeddah Gate in Jeddah and forthcoming Grade-A supply in the Eastern Province (which has hitherto been dominated by Grade B stock) – should fill this gap. Elsewhere in the office sector, rents and occupancy levels remained subdued.

In 2019, vacancy rates are expected to continue to rise across the country, further depressing rents and forcing landlords into offering increasingly generous incentives to maintain tenancies. In this environment, Grade-A offices with adequate parking are likely to hold up better than other categories, both in terms of value and occupancy levels.

However, with the economy entering a period of sustained growth and the Vision 2030 and National Transformation Program reforms beginning to trickle through, more private-sector companies and a younger, more diverse workforce will be drawn into the economy, bolstering demand for commercial office space.

Source: Published Market Report

Industrial/Logistics

Going Places

The government has embarked on an ambitious infrastructure spending program that aims to overhaul Saudi Arabia's transport sector. High-profile projects like the Haramain High-Speed Rail lines, Riyadh and Jeddah Metro networks, and the Saudi Landbridge will slash freight times and boost demand for high-quality warehousing and logistics hubs.

The National Industrial Development & Logistics Program should provide a further boost to the transport and logistics sectors. This program aims to attract US$427 billion of investment into four main sectors of the country's economy: logistics, manufacturing, mining and energy.

More than 300 initiatives have been outlined under the program. This will be hugely beneficial to economic activity across the Kingdom, but is a particular fillip to major logistics centres such as Jeddah and Dammam. Moreover, it should support the already strong growth of warehousing capabilities in Riyadh.

The transport and communications sector, the third-largest component of Saudi's non-oil economy, is forecast to grow by 2.5% in 2019, compared with 1.7% in 2018. The wholesale and retail sector, meanwhile, is expected to expand by 0.2%.

Source: Published Market Report

Market Outlook

Macroeconomic conditions continue to fuel optimism and improve business sentiment across Saudi Arabia. From a top-down perspective, there is a confluence of supportive factors. These include the recovery in oil prices, gradual growth of the non-oil sector, incremental success of government efforts to diversify the economy, an expected surge in local employment, looser fiscal environment, large pipeline of infrastructure megaprojects, and massive spending program to overhaul the transport sector.

The consensus now appears to be that the country is heading for a period of sustained expansion, and though the effects of these factors on the country's real estate market may take longer to reveal themselves, the green shoots of recovery from the current dip are beginning to show and the long-term outlook is optimistic.

Recent government initiatives (the white land law, mortgage law, approval of regulations for REITs) are important steps forward in attracting private-sector investment and creating a transparent real-estate ecosystem. At the same time, large-scale infrastructure and urban development projects, like the Riyadh Metro, are likely to catalyse property-sector growth. Although some segments, notably hospitality and offices, need some time to find an equilibrium amid strong supply and new policies, the broader picture is very compelling.

Likewise, retail faces some short-term challenges; due partly to the shrinking expat population, but this is likely to prove more of a kink in the curve. Meanwhile, residential is already showing signs of a recovery, while the strong structural demand backdrop for education, healthcare and logistics will continue to present long-term opportunities. In short, the real estate sector may be going through a tough patch, but there are very good grounds for REIT investors to remain upbeat.

Source: Published Market Report

Section 4

GROWTH STRATEGY

FUND INVESTMENT STRATEGY

Strategy Overview

To meet its primary objective, the Jadwa REIT Saudi Fund acquires and proactively manages — via third-party service providers — real estate assets that produce strong and sustainable cash flows, and therefore support dividend distributions to unitholders. Effective management of the Fund's existing portfolio is critical to protecting and growing these income streams. However, the portfolio's current high occupancy rate, single-tenant profile, net leases and a shortage of near-term lease expirations mean that internal growth is less easy to come by. As a result, external growth through additional acquisitions will be necessary to sustain and grow the Fund's dividend and thus drive total returns for unitholders.

The Fund's investment strategy is focused on Core and Core+ assets, including educational facilities, semi-gated residential compounds, industrial facilities (warehouses and showrooms), office towers and mixed-use complexes (offering retail, residential and supporting offices), net leased to single creditworthy tenants on a long-term basis. We acquire properties through single-asset purchases, portfolio acquisitions, and build-to-suit developments, with a growing emphasis on diversification, both by geography and tenant type.

As at 31 December 2018, the Jadwa REIT Saudi Fund's portfolio of investments consists of interests in five properties. The total cost of these assets was approximately SAR 1.55 billion. The Fund owns properties in three of the Kingdom's main cities — Riyadh, Dammam and Khobar. Currently, approximately 66% of the Fund's assets are located in Riyadh, 18% in Dammam and 16% in Khobar. About 39% of the Fund's present net-operating income is derived from residential properties, 34% from commercial properties (retail and offices), 14% from industrial properties and 13% from educational facilities. During the first quarter of 2019, the Fund completed the acquisition of an educational building.

Strategic Objective

We aim to increase the Fund's ownership of Core and Core+ assets while maintaining conservative leverage. Although the investment focus will remain on net-leased assets, investments containing more than one tenant, having shorter lease terms, or containing larger percentages of strong but nonrated credit tenants, will be considered. This modified strategy is intended to support growth in the per-share dividend, with new acquisitions — Funded either through debt or in-kind contributions — aimed at lifting the Fund's gross-asset value to SAR 3 billion within the next three years.

From an income perspective, we now aim to generate 35% of net-operating income from commercial properties, 30% from residential investments, 30% from educational and health facilities, and 5% from hospitality assets within the next five years. Meanwhile, our asset-management strategy continues to emphasize tenant retention and expansions, notwithstanding the current internal-growth challenges.

The Fund's financing strategy will focus on debt deployment while capping the LTV at 40% of assets (leaving some headroom to the 50% regulatory ceiling). Furthermore, the Fund will aim to improve dividend distributions by acquiring assets that can accommodate rising interest rates, while capitalizing on a healthy spread between the cost of acquisition and the interest due, to enhance the Fund's dividend. The Fund will generally seek to raise equity only when its share price meets or exceeds its estimated net-asset value, and only if the proceeds of such equity issuance can be invested accretively. What follows are details of the Fund's strategy across three categories: Investment, Asset Management and Financing.

Investment Strategy

The current investment environment is characterized by declining capitalization (cap) rates for the best-located properties with the highest-quality tenants, which could impact the Fund's ability to generate near-term dividend growth. Spreads between financing costs and real estate returns have been elevated over the past few years, helped by low interest rates. However, these spreads are now coming in as interest rates tick higher. Consequently, the Fund's investment strategy will be adapted to its current cost of capital and prevailing market conditions.

FUND INVESTMENT STRATEGY

Asset Acquisitions

Return Profile

- Projected internal rates of return (IRR) on new acquisitions should be accretive relative to the Fund's weighted average cost of capital (WACC).
- An acquisition's initial leverage-neutral yield should likewise be accretive to the dividend.

Acquisition Criteria

1. **Office**	The Fund favors Class-A office buildings/complexes with a number of quality characteristics, such as good location, efficient floor plates (potentially convertible to multi-tenant use), corporate amenities, above-market parking ratios and/or access to mass-transportation alternatives. We focus on single-tenant properties and look to secure long-term net leases with investment-grade or creditworthy tenants.
2. **Industrial**	In the industrial category we focus on locations that are well supported by infrastructure and transportation routes, regional distribution hubs, intermodal sites, airport or port locations. Again, our preference is for a single tenant. However, multi-tenanted properties may be considered, if they consist of a single building with two to four large tenants, resulting in an acceptable risk/return profile and IRR. Critically, properties should be attractive to large corporate users, and replacement tenants likely to be of a similar size. We tend to avoid specialized or unique property characteristics tied to any tenant, due to the risk this brings.
3. **Commercial**	Strip malls will be considered, as well as leased schools and hospitals. Net leases are preferred because of lower operational expenses. Furthermore, the critical or strategic use of a property by a tenant tends to increase the likelihood that they will renew their lease. In all cases, we seek highly covenanted properties with a healthy share of the markets they operate in. The credit quality of tenants remains a core focus of the Fund's underwriting.
4. **Hospitality**	We consider three-star long-stay hotels located in central areas, with excellent transport links to key tourist sites and landmarks. Long leases are preferred because they reduce near-term capital expenditure, and the operator will have proven experience with the hotel's brand. The operator should also be able to deliver profitability above market averages over a sustained period.

Lease / Tenant Profiles

- Net leases are preferred because of their generally lower operational expenses.
  - Non-net lease arrangements are acceptable to the extent they are compensated for by attractive return prospects.
- The credit quality of tenants remains a core focus of the Fund's underwriting.
  - Investment-grade credit ratings preferred.
  - 'Quality credit' tenants are acceptable non-investment grade rated tenants that exhibit:
    - Stable or growing businesses (e.g. third-party logistics providers with transparent and compelling business fundamentals) and strong profitability.
- Long-term leases are preferred because they reduce near-term capital exposure.
- Shorter-term leases will be acceptable to the extent they are supported by return projections and compelling property characteristics.
- Critical or strategic use of a property by a tenant tends to increase the likelihood of lease renewal.
  - Property use is a particularly important factor when considering acquisitions that are multi-tenanted with quality-credit lessees, or that have short-term leases.
- Diversification (i.e. reducing portfolio concentration) will be one of the Fund's principal objectives over the five years, to ensure that:
  - No single tenant accounts for more than 30% of net-operating income; and
  - No single tenant industry represents greater than 25% of net-operating income.

Build-to-Suit Developments

- Acting as the takeout partner in a build-to-suit development is preferred to mitigate construction risk.
  - We will be selective about accepting construction Funding/risk in any build-to-suit venture, to minimize drag on the Fund's balance sheet.
- Development partners will be carefully vetted.
- The Fund requires that: (1) all its investment criteria are met by any build-to-suit project; and (2) its total development exposure generally remains limited to less than 25% of total-asset value.

Markets

- In Riyadh, the focus will be on sectors including Grade-A offices, strip malls, logistics, educational and health facilities that are well supported by tenant demand and transport infrastructure.
- In Jeddah, the focus will be on sectors including hospitality, educational and health facilities that are well supported by tenant demand and transport infrastructure.
  - Complementary investments will be sought in markets with existing assets; and
  - Expansion into smaller cities that meet the Fund's investment criteria will be pursued.

Pace of External Growth

- We aim to fully deploy the SAR 1 billion credit-line facility obtained by BSF within the next three years, to reach the Fund's targeted AUM and maintain the growth of its dividend; and
- Pursue strategic accretive corporate or portfolio acquisitions to significantly increase external growth, which may also be executed through partial equity contributions from the seller, whereby the seller retains units in the Fund.

FUND INVESTMENT STRATEGY

Asset Dispositions

The Fund holds on to an asset if its risk-reward profile remains attractive, but has a strong sell-discipline should this profile show signs of worsening. That is why we continually monitor the market for exit opportunities. A decision to exit any of the Fund's assets would be for one of the following reasons:

- A rebalancing of the Fund's assets to add new, more attractive assets.
- Changes in the fundamentals of the asset.
- A negative view of the real-estate market and its sub-sectors, which may affect the Fund's assets.

We hold investments for the long term. However, we regularly value all our assets and recommend strategies for each property.

Any asset to be sold, or disposed of, will require two independent valuations, and the selling price shall not be for less than the lowest of the two valuations.

Asset Management Strategy

We recognize the importance of productive tenant relationships, viewing our counterparties as partners. This not only optimizes rental rates but also increases tenant retention. As the portfolio grows, asset management will become an increasingly important aspect of the Fund's strategy.

Portfolio Management Strategy

The principal objective is to provide unitholders with income and capital appreciation, by investing in a portfolio of real estate assets predominantly located in the Kingdom's main cities, excluding Makkah and Madinah. However, the Fund also monitors opportunities in the Kingdom's smaller cities.

We seek to achieve these goals through the ongoing acquisition of Core and Core+ assets. These are expected to account for more than 50% of the portfolio's net-asset value, while allowing for limited exposure to value-added and opportunistic real estate of no more than 25% and 25%, respectively. These allocation weightings will be reconsidered every year, and potentially changed subject to market dynamics and opportunities.

By income source, the Fund's investment strategy is to generate 35% of net-operating income from commercial properties, 30% from residential investments, 30% from educational and health facilities and 5% from hospitality assets, within the next five years.

FUND PORTFOLIO STRATEGY

Ownership

The Fund invests mainly in freehold assets. The Fund may also consider investing in ground rent opportunities. Leasehold assets should account for no more than 25% of the portfolio.

Portfolio Concentration

- To date, the Fund has focused on real estate opportunities in Riyadh, with 66% of the current portfolio located there. Within the next five years, the Fund's investment strategy is to achieve better diversification, by shifting the geographic mix to 50% of assets invested in Riyadh, 20% in Eastern Province, 20% in the Western Region and 10% in sub-cities. This strategy will be reviewed proactively, depending on market dynamics.
- Up to 25% of the Fund's total asset value may invest in SAR Murabaha financing arrangements with local Saudi banks, Shariah-compliant real estate equity shares or real estate investment-traded Funds listed on the Saudi Stock Exchange.

As the Fund manager, Jadwa Investment Company considers whether each transaction is in line with the investment policy and overall strategy of the REIT. It also assesses the risk profile and opportunities relating to each proposal.

All transactions adhere to applicable laws and regulations.

FUND PORTFOLIO STRATEGY

Investment Limitations

Type Of Investment	Asset Allocation	Current Allocation
Real estate investments in Saudi Arabia	No less than 100% of the Fund's real estate asset value	100% of the Fund's real estate asset value is invested in the main cities of Riyadh, Dammam and Khobar
Real estate developments	Up to 25% of the Fund's gross asset value	0% of the Fund's gross asset value is invested in real estate developments
Investments outside of Saudi Arabia	0% - The Fund will not invest outside of the Kingdom of Saudi Arabia	0% of the Fund is invested outside of the Kingdom of Saudi Arabia
White land	0% - The Fund will not invest in white land	0% of the Fund is invested in white land
Leverage	Not to exceed a ratio of 50% of the Fund's total asset value	The Fund's current LTV ratio is 0%

Monitoring The Market

The Fund manager continually screens the market for suitable investment opportunities. Simultaneously, external advisors are regularly used to assess Saudi Arabia's real estate market. This ensures that the Fund diversifies across growing sectors, capitalizes on any opportunities, and meets its long-term investment objectives.

FUND BORROWING STRATEGY

Financing Strategy

A SAR 1 billion credit-line facility has been set up with Banque Saudi Fransi, a local bank. Secured at competitive rates, it allows the Fund to acquire new assets swiftly and efficiently, as well as maintain a flexible balance sheet.

At the time of writing (Q1 2019), the Fund has only utilized SAR 26 million of this facility — to acquire an educational building located in Riyadh. The Fund's financing strategy is to access equity and debt capital markets in the most efficient manner to support the policy of continued growth, while maintaining a conservative and flexible balance sheet, as well a competitive cost of capital.

The Fund seeks to cultivate relationships and build credibility with investors in advance of future equity and debt-capital raising activities. This is done by:

- Presenting a consistent and compelling corporate identity.
- Clearly communicating the Company's investment strategy and intended positioning as a traded REIT.
- Conducting periodic investor surveys; and
- Expanding the Fund's high-quality and transparent financial disclosure via the publication of quarterly fact sheets.

The Fund is managed with a conservative approach to leverage, which does not exceed 50% of the Fund's total asset value.

Exit Strategy and Disposal of Investments

We hold on to assets as long as their risk-reward profiles remain attractive but have strong sell-discipline should these deteriorate. That is why we continually monitor the market for exit opportunities. A decision to exit any of the Fund's assets would be for one of the following reasons:

- A rebalancing of the Fund's assets to add new, more attractive assets.
- Changes in the fundamentals of the asset.
- A negative view of the real-estate market and its sub-sectors, which may affect the Fund's assets.

We hold investments for the long term. However, we regularly value all our assets and recommend strategies for each property.

Any asset to be sold, or disposed of, will require two independent valuations, and the selling price shall not be for less than the lowest of the two valuations.

Dividend Distributions

REIT Funds are primarily income-generating investment vehicles, which provide exposure to real estate assets that are either currently leased and thus producing income, or have the potential to do so in the future. The Fund's dividend policy is:

- To distribute all available Funds from operations (FFO) to unitholders on a quarterly basis after accounting for short-term obligations.
- To only make changes to the dividend policy in the following scenarios: a significant shift in the Fund's strategy, an investment plan requiring the Fund to keep cash, or in the event of revisions to any relevant laws and regulations.
- To proactively maintain quarterly dividend payments of no less than SAR 0.18 per share over the coming three years.

FUND BORROWING STRATEGY

Risk Profile

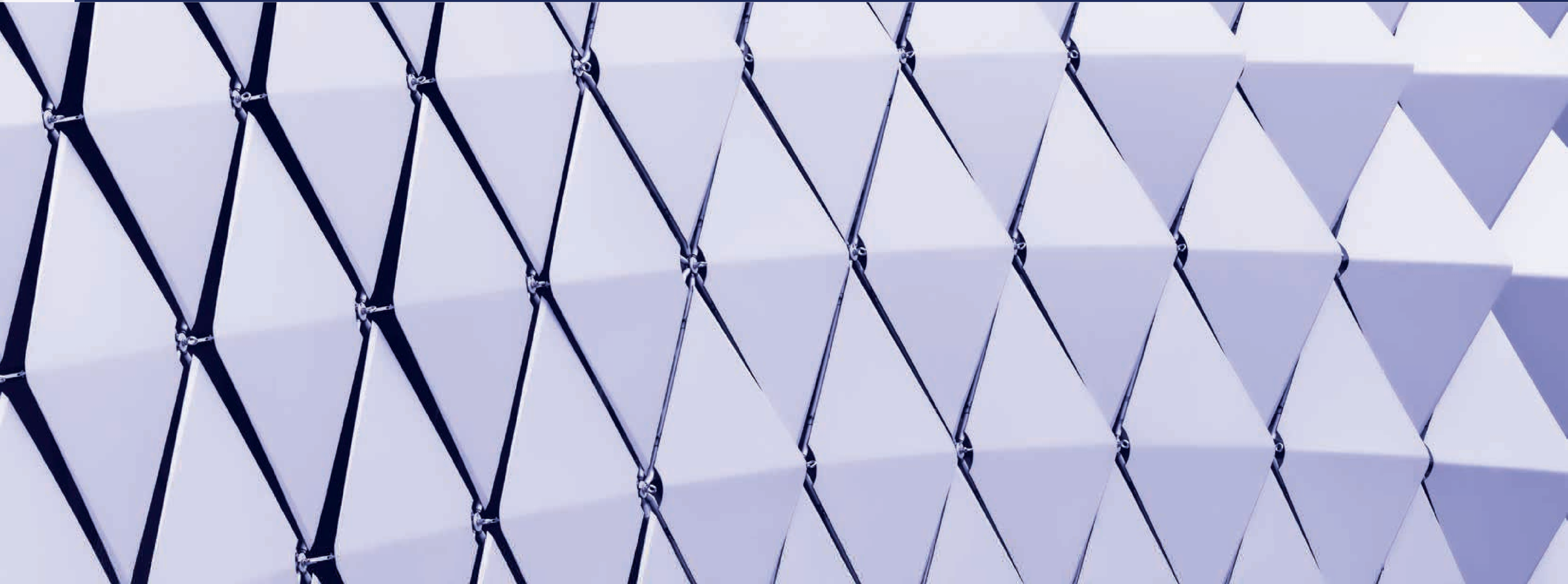
- Presently, some 66% of the Fund's asset portfolio is located in Riyadh. This heavy focus on the Kingdom's capital exposes the Fund to the real estate conditions specific to this city, such as intense competition for Core assets.
- 39% of the Fund's net-operating income is derived from residential properties, which makes the REIT potentially vulnerable to the risks inherent in the residential industry.
- 70% of the Fund's leasing income is derived from Al Muhaideb Group. If, for instance, this lessee was to serve the Fund notice in the next few years, it could expose the REIT to high cash-flow risk. However, portfolio growth using a greater range of tenants reduces this risk.
- A reduced ability to source deals with sufficiently attractive return profiles (capitalization rates above 8%) in a market environment where Core-asset yields are compressed. As a result, the Fund may be forced to explore the acquisition of higher-risk assets, such as value-add and opportunistic investments, but with the additional risk mitigated through pre-lease terms with strong-covenant tenants, and rigorous assessments of post-completion fundamentals.
- Other potential risks include changes to the tax and regulatory landscape — this includes the recent implementation of the 5% value-added tax (VAT), which applies to all the Fund's new acquisitions.
- The Fund's traded shares are available to overseas investors, which will expose it to the liability of collecting withholding tax from international unitholders. Presently there is a lack of clarity around how such taxes should be paid to GAZT. Also, importantly, it may trigger Zakat, which remains optional for the time being. Should the Fund be forced to register for Zakat (these payments are currently the unitholders' responsibility), this may affect the dividend.
- As income-oriented investment vehicles, REITs can be sensitive to changes in interest rates, with sharp increases potentially reducing their relative appeal.

Risk Management

- With a strong management team and a proven track record, the Fund continues to explore the real estate market in the Kingdom's main cities for new opportunities.
- We acquire properties with strong economic fundamentals and cash-generation characteristics, and thus margins of safety.
- Saudi Arabia's real estate market has delivered robust, risk-adjusted returns over the long term. However, we also look to diversify its portfolio from time to time, in a range of commercial, mixed-use, hospitality logistics, schools, and health facilities that meet the Fund's strict investment criteria.
- We seek to maximize the performance of assets for a given level of risk.
- We strive to increase investor returns by improving the Fund's net-operating income. This means active management of our real estate assets, ensuring the Fund's properties generate strong yields and a focus on net-leasing assets to creditworthy tenants on a long-term basis. We believe the establishment of strong relationships with tenants not only optimizes rental rates but also increases tenant retention.
- The Fund has recently set up a SAR 1 billion credit-line facility with Banque Saudi Fransi. This allows it to maintain a flexible balance sheet, acquiring new assets swiftly and efficiently. Debt repayments are Funded either through rental proceeds or cash. Leverage does not exceed 50% of the Fund's total asset value.
- The Fund manager has appointed PWC as a VAT consultant. Should the Fund be forced to register for Zakat in the future, the Fund may seek an opinion from PwC in this regard.
- We are actively considering the use of hedging tools to help offset the risk of any adverse price movements. These could be triggered by factors such as interest-rate changes.
- The Fund only considers blue-chip tenants with a low risk of rent default. Most the Fund's assets are supported by multiple enforcement mechanisms including promissory notes, revolving corporate guarantees, pledge of shares and pledge of dividend.

Section 5

THE FUND MANAGER & SERVICE PROVIDERS



JADWA INVESTMENT

About the REIT

The Jadwa REIT Saudi Fund is a closed-ended Shariah-compliant real estate investment-traded Fund that is managed by Jadwa Investment Company. The Fund operates in accordance with the Real Estate Investment Fund Regulations and the REIT Instructions issued by Saudi Arabia's Capital Market Authority (CMA).

Name	Jadwa Investment Company
Address	Sky Towers, Fourth Floor, King Fahad Road, P.O. Box 60677, Riyadh, 11555, Kingdom of Saudi Arabia
Website	www.jadwa.com

About Jadwa Investment Company

Jadwa Investment is a Riyadh-headquartered investment management and advisory firm with assets under management of SAR 25.5 billion in public equity, private equity, real estate, fixed income and Assets Under Advisory of SAR 11.5 billion.

The firm's clients include government-related entities, local and international institutional investors, leading local family companies and offices and high-net-worth individuals.

Jadwa Investment is one of Kingdom's three largest public-equity asset managers and one of the region's top mutual Fund performer.

Jadwa Investment is licensed by the CMA as an authorized person, registration number 6034/37.

Material Disclosure

Over the reporting period to 31 December 2018, there have been no transactions involving material conflicts of interest between Jadwa REIT Saudi Fund, Jadwa Investment Company, its board or any third parties.

By way of clarification, the appointed custodian Al Bilad Capital is wholly owned by Al Bilad Bank. A member of Jadwa Investment Company's board of directors is a shareholder in a founding company of Al Bilad Bank (at a percentage not representing control).

In addition, the appointed custodian is a shareholder of Jadwa Investment Company at a percentage not representing control.

Jadwa Investment Company shall not have any interest in or claims against Jadwa REIT Saudi Fund's assets, except in its potential capacity as a unitholder. Creditors of Jadwa Investment Company shall not have any interest in any of Jadwa REIT Saudi Fund's assets.

Delegation to Third Parties

As the Fund manager, Jadwa Investment Company is liable for the appointment of any third party (including its affiliates) and their responsibilities.

Jadwa Investment Company is also the Fund administrator. However, Jadwa has delegated certain administrative functions to Apex Fund Services (Dubai) Ltd to enhance the performance of the REIT.

Custodian

Name	AlBilad Investment Company
Address	Smart Tower, First Floor, Intersection of King Fahad Road and Tahlia Road, P.O. Box 140, Kingdom of Saudi Arabia.
Website	www.albilad-capital.com
Tel	+966 11 290 6245

Auditor

Name	Alliance Chartered Accountants (ACA)
Address	187 Abo Bakr Al Siddiq Road, Al Morsalat District, Fourth Floor, P.O Box 7535-4304, Riyadh, 12462, Kingdom of Saudi Arabia
Tel	+966 11 269 4419

Administrator

Name	Jadwa Investment Company
Address	Sky Towers, Fourth Floor, King Fahad Road, P.O. Box 60677, Riyadh, 11555, Kingdom of Saudi Arabia
Website	www.jadwa.com
Tel	+966 11 279 1111

Legal Advisor

Name	Abuhimed Alsheikh Alhagbani Law Firm (in affiliation with Clifford Chance LLP)
Address	The Business Gate, 15th Floor King Khaled International Airport Road, Kingdom of Saudi Arabia
Tel	+966 11 481 9700
Website	www.ashlawksa.com

Third-Party Valuers

Name	White Cubes Company
Address	Riyadh, Kingdom of Saudi Arabia
Tel	+966 11 810 1765
Website	www.white-cubes.com

Name	ValuStrat Company
Address	6th Floor, Southern Tower, King Khalid Foundation Al Faisaliah Complex, King Fahd Road, Riyadh, Kingdom of Saudi Arabia
Tel	+966 11 293 5127
Website	www.valustrat.com

VAT Consultant

Name	PricewaterhouseCoopers (PWC)
Address	Kingdom Tower - 21st Floor, King Fahd Highway, Riyadh, 11414, Saudi Arabia
Tel	+966 11 211 0400
Website	www.pwc.com/m1

Conflicts of Interest

As of December 31, 2018, there are no transactions involving material conflicts of interest between Jadwa REIT Saudi Fund, Jadwa Investment Company, its board or any third parties. To clarify, the appointed custodian Al Bilad Capital is wholly owned by Al Bilad Bank. A member of Jadwa Investment Company's board of directors is a shareholder in a founding company of Al Bilad Bank (at a percentage not representing control).

Conflicts of interest may exist or arise from time to time between the REIT, and the Jadwa Investment Company or its affiliates, subsidiaries, directors, officers, employees and agents thereof, and other Funds sponsored or managed by them. Where Jadwa Investment Company has a material conflict of interest with the Fund, Jadwa Investment Company will make full disclosure to the Fund Board as soon as practicable. Jadwa Investment Company will attempt to resolve any conflicts of interest by exercising its good faith judgment considering the interests of all affected investors and parties taken as a whole.

Material Changes

During the reporting period the Fund announced the following material changes:

1. Obtaining a Shariah-compliant debt facility from the Banque Saudi Fransi, of up to SAR 1 billion.
2. The completed acquisition of a property in Riyadh.

(a) Similar Vehicles Managed by Jadwa Investment Company

Jadwa Investment Company currently manages, and expects to continue operating, its proprietary account and other investments and accounts with objectives that are similar in whole or in part to those of the Fund. These include other collective investment vehicles which are managed or sponsored by Jadwa Investment Company, or in which its affiliates may have an equity interest.

Jadwa Investment Company manages two REIT Funds, one that invests solely in Makkah and Madinah, and one that invests in Saudi Arabia (excluding Makkah and Madinah).

Subject to the limitations set forth herein, Jadwa Investment Company and its affiliates may in the future sponsor or serve as Fund manager, investment manager or general partner with respect to investment Funds or other collective investments. One or more of these may invest in properties similar to those in the Fund's assets, provided that such other activity does not impair the success of the Fund.

(b) Conflicts of Interest Regarding Transactions with the Fund Manager and its Affiliates

The Fund may engage in transactions with the Fund manager or its affiliates or other entities in which Jadwa Investment Company has a direct or indirect interest. For example, certain affiliates of Jadwa Investment Company may provide services to the Fund, such as administrative services.

All transactions between the Fund and the Fund manager, its affiliates and entities in which Jadwa Investment Company holds a direct or indirect interest will be disclosed by the Fund manager to the Fund Board. However, the Fund manager and the Fund Board shall use their good faith commercially.

They will also make reasonable efforts to ensure that the terms of the agreements between the Fund manager and its affiliates, on the one hand, and the Fund, on the other hand, are prepared on an arms-length basis and in harmony with market standard terms.

Section 6

FUND GOVERNANCE

Fund Board

The Fund Board oversees the resolution of conflicts of interests. As at December 31, 2018, the Fund Board is composed of appointees of the Fund manager.

The members of the Fund Board have fiduciary duties to the investors under the Real Estate Investment Fund Regulations and will use their best efforts to resolve all conflicts by exercising their good faith judgment.

The Fund Board is composed of five members appointed by the Fund manager, of whom two are independent. Any amendment to the composition of the Fund Board shall be notified to the Unitholders by an announcement on the Fund manager's and Tadawul's websites.

Fund Board Meeting

The Fund manager held three Fund Board meetings during 2018

The first meeting was held in January 2018.

1. A brief description of the Fund's objective, assets acquired, lease agreements and yield.
2. Compliance confirmed that the Fund is clear of any breaches and has made smooth progress.
3. Approval of the Terms & Conditions, Fund listing, SPA agreements, lease agreements, appointment of third parties, obtaining debt facility and appointment of Board Chairman.

The second meeting was held in August 2018.

1. An overview of the Fund's performance and related macroeconomic indicators, with a focus on the current condition of the Saudi market, anticipated interest rate increase and exploring new opportunities.
2. Discuss the Fund's financing avenues and the strategy of obtaining debt facilities from local banks to help it acquire new assets across the Kingdom's main cities (excluding Makkah and Madinah).
3. Compliance confirmed that they did not see any suspicious activity at the Fund or unitholder levels.

The third meeting was held in December 2018.

1. An overview of the Fund's performance and the Fund's dividend distribution.
2. Discuss the Fund's assets value and the recent valuation conducted by independent parties.
3. Fund's financing strategy and how the SAR 1 billion credit line facility from BSF will be deployed to improve the Fund's assets allocation and to growth the Fund's dividend.
4. Discuss the Fund's acquisition strategy and its ability to source new opportunities.
5. Compliance confirmed that they did not see any suspicious actions activity at the Fund or unitholder levels.

Circular of acquiring new assets

Before the acquisitions took place, the Fund manager received Fund Board approval for the assets under consideration for purchase.

Shariah Board

The Fund manager has appointed a Shariah Board as the Fund Shariah Advisor (the "Shariah Board"). The Shariah Board is a panel consisting of four scholars who are experts in the field of Islamic Shariah. It monitors the business, operations, investments and financings of the Fund to ensure compliance with the Islamic principles of Shariah.

The Fund manager carries out the Shariah monitoring tasks for the Fund's investments, which include the following:

- Achieve the Fund's commitment to Shariah monitoring through periodic reviews.
- Review agreements and contracts regarding the Fund's transactions.
- Follow-up with the Fund's operations, review its activities in terms of their legality, and consider the extent of its compliance with the Shariah Guidelines and the Shariah Board's directions.
- Submit the matter to the Shariah Board in case of any potential Shariah violations.
- Prepare and follow-up with the necessary endorsements for the purification amounts approved by the Shariah Board.

The Shariah Board oversees the compliance of the Fund's activities with the Shariah Guidelines and provides relevant advice.

The Shariah Board consists of the following members:

H.E. Sheikh Dr. Abdulla Al Mutlaq	**Chairman of the Board** H.E. Sheikh Dr. Abdulla Al Mutlaq is a member of the Senior Ulema Board, Advisor to the Royal Court, former Chairman of the comparative Fiqh, Imam Mohammed Bin Saud Islamic University, and a member of the Shariah Board for several financial institutions in the Kingdom of Saudi Arabia.
Sheikh Dr. Muhammad Ali bin Ibrahim Al Qari bin Eid	**Member of the Board** Sheikh Dr. Muhammad Ali Al Qari bin Eid is a professor of Islamic Economics at King Abdulaziz University in Jeddah, and an expert at the Fiqh Academy of the Organization of Islamic Conference in Jeddah.
Sheikh Bader Abdulaziz Al Omar	**Member of the Board** Sheikh Bader Abdulaziz Al Omar has 18 years of experience in Islamic banking. Currently, he is the Head of the Shariah Group at Jadwa Investment, having worked earlier in several positions at the Shariah group within Al Rajhi bank. He is a former member of the Islamic banking committee at the Saudi Arabian Monetary Agency.
Sheikh Ahmed Abdulrahman Al Gaidy	**Member of the Board** Sheikh Ahmed Abdulrahman Al Gaidy is our head of Shariah research and has 14 years of experience in investment banking. He has issued several pieces of Shariah research and previously worked as Shariah consultant to the Al Rajhi Bank's investment department. He was also a Shariah consultant to the Al-Jazira Bank's treasury department.

Expenses

The Fund manager is responsible for the expenses of the Shariah Board, including those related to monitoring the business, operations, investments and financings of the Fund. The Fund is not responsible for Shariah Board's expenses.

The Shariah Board has reviewed these Terms and Conditions and approved the structure of the Fund and the offering of units at the Fund's inception. The Fund shall also comply with the approved Shariah Guidelines.

If any investment proceeds or other amounts received by the Fund are not Shariah-compliant, the Fund shall arrange for such Funds to be 'purified' in accordance with a procedure to be determined by the Shariah Board from time to time. The Shariah Board shall specify the relevant purification percentage or amount.

Shariah guidelines for the Fund's investment in real estate assets

The Shariah Board believes that investments in real estate assets are permissible subject to the following guidelines:

1. The purchase-and-sale agreement for the real estate assets must be in the Shariah Board's approved form.
2. The invested real-estate asset must be accurately known with due diligence.
3. The price must be known.
4. The Fund manager must not execute any lease contracts on a real estate asset until completion of the purchase of the real estate asset;
5. The property cannot be rented from the owner for a deferred payment, and then re-leased to the owner for an amount that is less than the deferred amount. The property must not be rented from the owner with a current payment, then re-leased to the owner for more than that price for a deferred payment.

In Addition:

1. The Fund can only invest directly in the shares of listed real estate companies.
2. The Fund can only purchase units in other real estate Funds traded on the Saudi Stock Market 'Tadawul' if these are Shariah-compliant and are approved by the Shariah Board.
3. SAR Murabaha placement.

JADWA REIT GOVERNANCE

The Fund Board consists of the following members:

Zaheeruddin Khalid

Chairman

Mr. Khalid is the Head of Asset Management and Chief Investment Officer at Jadwa Investment Company. He has over 16 years of experience in the field of investments and capital markets, and joined Jadwa in 2008 to develop the buy-side research team and later held the position of head of portfolio management. Prior to joining Jadwa, Mr. Khalid held various positions, including Head of Research and Product Development in Mezzan for Investment Management and Head of Research in Elixir Securities Company. He holds an MBA degree and is a CFA charterholder.

Ghannam Al Ghannam

Member

Mr. Al Ghannam is the Director, Private & Institutional Client Investments at Jadwa Investment Company. Prior to joining Jadwa, he was a Senior Investment Advisor for private clients at HSBC Saudi Arabia. Mr. Al Ghannam has over 14 years of experience in business development and wealth management. He is a certified financial planner and holds a BS degree in Business Adminstration from Toledo University.

Fahad Al Turki, Ph.D.

Member

Dr. Fahad Al Turki is the Chief Economist and Head of Research at Jadwa investment Company in Riyadh. He is also a member of its Executive Management Committee and a chairperson of its Public Funds Board. With close to 20 years of experience, Dr. Fahad manages the economic research department and publishes regular reports on issues related to the Saudi and global economies and the world oil market. Before joining Jadwa, he was the Chief Economist at Barclays Saudi Arabia. Dr. Fahad graduated with a BA in Business Administration (majoring in accounting) from King Saud University in Saudi Arabia, and has a Master's degree and a Ph.D. in economics from University of Oregon (Eugene, USA).

Dr. Waleed Addas

Independent Board Member

Dr. Addas is the Chief of Programs and Portfolio Monitoring Division at Islamic Development Bank. Prior to this he was Director of Finance and Administration at International Energy Forum, Riyadh. Dr. Addas holds a Doctorate in Economics from International Islamic University, Malaysia.

Dr. Waleed Alnumay

Independent Board Member

Dr. Alnumay is a Faculty Member at King Saud University and Chairman of the Saudi Association of Community Colleges. Over the years, he has held many administrative and supervisory positions - most notably in the field of information technology projects, such as the establishment and management of large data centers and smart schools. Dr. Waleed holds a Master's degree from Atlanta University and a Doctorate degree from Oklahoma University.

Related party transactions

The REIT may, from time to time, enter into transactions with related parties and affiliates to provide services to the Fund. Such arrangements must be disclosed to the Fund's Board and shall be on market standard terms. In case a related party or an affiliate, including another Fund or collective investment vehicle established by the Fund manager, wishes to enter into a transaction with the Fund, the Fund manager will obtain the approval of the Fund's Board. If the Fund buys or sells assets to a related party or an affiliate, the purchase price paid or received by the Fund must be consistent with independent valuations.

Raed Al Ammari resigned in February 2018, and Dr. Fahad has been appointed.

The preceding does not purport to be a complete or exhaustive explanation and summary of all the potential conflicts of interest involved in an investment in units in the Fund. It is strongly recommended that all potential investors seek independent advice from their professional advisors.

Section 7

REIT Fund Financials

AUDITED FINANCIAL STATEMENT

31, December 2018

ALLUHAID & ALYAHYA
اللحيدو اليحيى

Alluhaid & Alyahya Chartered Accountants
License No. (735)
6733 Abo Bakr Al Siddiq Road, At Taawun District
P.O. Box 85453, Riyadh 11691 Kingdom of Saudi Arabia
Tel. +966 11 269 4419
Fax +966 11 268 3516
www.lyca.com.sa

INDEPENDENT AUDITOR'S REPORT
To the Unitholders of Jadwa REIT Saudi Fund
(Managed by Jadwa Investment Company)

Opinion
We have audited the accompanying financial statements of Jadwa REIT Saudi Fund (the "Fund") being managed by Jadwa Investment Company, which comprise the statement of financial position as at 31 December 2018, the statement of comprehensive income, statement of cash flows and statement of changes in net assets for the period from 11 February 2018 to 31 December 2018, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements taken as a whole, present fairly, in all material respects, the financial position of the Fund as at 31 December 2018, and its financial performance and its cash flows for the period from 11 February 2018 to 31 December 2018 in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and as endorsed in the Kingdom of Saudi Arabia.

Basis for Unqualified Opinion
We conducted our audit in accordance with International Standards on Auditing ("ISA") as endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the professional code of conduct and ethics, as endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

ALLUHAID & ALYAHYA
اللحيدو اليحيى

Alluhaid & Alyahya Chartered Accountants
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6733 Abo Bakr Al Siddiq Road, At Taawun District
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INDEPENDENT AUDITOR'S REPORT
To the Unitholders of Jadwa REIT Saudi Fund
(Managed by Jadwa Investment Company) (continued)

Key Audit Matters (continued)

Key Audit Matter	How the key matter was addressed in the audit
The Fund owns a portfolio of investment properties comprising of commercial building being located in the Kingdom of Saudi Arabia. Investment properties, being held for capital appreciation and/or rental yields, are stated at cost less accumulated depreciation and any impairment losses. Investment properties are re-measured for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. For assessing the impairment of investment properties, the fund management monitors volatility of fair value of properties by engaging independent certified property valuers to perform a formal valuation of the fund's investment properties on semiannual basis. We considered this as a key audit matter since the assessment of impairment requires significant judgment by management and the potential impact of impairment could be material to the financial statements.	For impairment of investment properties, we have carried out the following audit procedures: - We assessed the independence of the external valuers and read their terms of engagement with the fund to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations on their work; - We reviewed the methodology applied by the external valuers to ensure it is appropriate; - We obtained two valuation reports from two different / independent real estate valuers for all investment properties as at 31 December 2018 and confirmed that the valuation approaches are suitable for use in determining the carrying values as at the reporting date; - Based on the average fair value of the related investment properties as per the above-mentioned valuation reports, we have determined that the average fair value is higher than the carrying amount of the same; and - We reconciled the average fair value of the investment properties as per note 7 to the external valuers' reports.

AUDITED FINANCIAL STATEMENT

31, December 2018

ALLUHAID & ALYAHYA
اللحيد واليحيى

Alluhaid & Alyahya Chartered Accountants
License No. (735)
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INDEPENDENT AUDITOR'S REPORT
To the Unitholders of Jadwa REIT Saudi Fund
(Managed by Jadwa Investment Company) (continued)

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as endorsed in the Kingdom of Saudi Arabia and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund'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 Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 ISA as 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA as 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 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 Fund's internal control.

ALLUHAID & ALYAHYA
اللحيد واليحيى

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INDEPENDENT AUDITOR'S REPORT
To the Unitholders of Jadwa REIT Saudi Fund
(Managed by Jadwa Investment Company) (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- 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 Fund'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 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 Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

for Alluhaid & Alyahya Chartered Accountants

Saleh A. Al-Yahya
Certified Public Accountant
Registration No. 473

Riyadh 21 Jumada Al-Thani 1440 H
(27 February 2019)

AUDITED FINANCIAL STATEMENT

31, December 2018

	Notes	SR
ASSETS		
NON-CURRENT ASSETS		
Investment properties	6	1,524,395,217
CURRENT ASSETS		
Rent receivables	8	26,582,690
Prepayments and value-added tax	9	10,346,116
Bank balances	10	20,459,428
TOTAL CURRENT ASSETS		57,388,234
TOTAL ASSETS		1,581,783,451
LIABILITIES		
CURRENT LIABILITIES		
Due to related parties	12	59,441
Accrued management fee	12	6,619,153
Accrued expenses	11	295,995
TOTAL LIABILITIES		6,974,589
NET ASSETS		1,574,808,862
Units in issue	14	158,000,000
Per unit value		9.97
Per unit fair value	7	11.03

	Notes	SR
INCOME		
Rental revenue from investment properties		117,561,752
EXPENSES		
Depreciation	6	(35,824,433)
Management fee	12	(12,301,877)
General and administrative expenses	16	(1,946,580)
		(50,072,890)
NET INCOME FOR THE PERIOD		67,488,862
Other comprehensive income		-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		67,488,862

AUDITED FINANCIAL STATEMENT

31, December 2018

	Notes	SR
OPERATING ACTIVITIES		
Net income for the period		67,488,862
Adjustments for non-cash and other items:		
Depreciation	6	35,824,433
		103,313,295
Changes in operating assets and liabilities:		
Rent receivables		(26,582,690)
Prepayments and value-added tax		(10,346,116)
Due to related parties		59,441
Accrued management fee		6,619,153
Accrued expenses		295,995
Net cash from operating activities		73,359,078
INVESTING ACTIVITY		
Purchase of investment properties	6	(543,666,650)
Cash used in an investing activity		(543,666,650)
FINANCING ACTIVITIES		
Proceeds from units sold	14	563,447,000
Dividends distributed	21	(72,680,000)
Net cash from financing activities		490,767,000
NET INCREASE IN CASH AND CASH EQUIVALENTS		20,459,428
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		20,459,428
NON-CASH TRANSACTIONS		
Investment properties (compensated against sale of units)	6	1,016,553,000

	Fund units SR	Cumulative income (loss) SR	Total unitholders' net assets SR
Issuance of units			
for cash	563,447,000	-	563,447,000
for consideration other than cash	1,016,553,000	-	1,016,553,000
	1,580,000,000	-	1,580,000,000
Net income for the period	-	67,488,862	67,488,862
Other comprehensive income for the period	-	-	-
Total comprehensive income for the period	-	67,488,862	67,488,862
Dividend distribution (note 21)	-	(72,680,000)	(72,680,000)
Net asset value attributed to the unitholders at the end of the period	**1,580,000,000**	**(5,191,138)**	**1,574,808,862**

AUDITED FINANCIAL STATEMENT

31, December 2018

1. GENERAL

Jadwa REIT Saudi Fund (the "Fund") is a closed-ended Shariah compliant real estate investment traded Fund. The Fund operates in accordance with Real Estate Investment Fund Regulations ("REIFR") and Real Estate Investment Traded Funds ("REITF") Instructions issued by the Capital Market Authority ("CMA"). The Fund is listed on Saudi Stock Exchange ("Tadawul") and the units of the Fund started to be traded on Tadawul in accordance with its rules and regulations. The Capital of the Fund is SR 1,580,000,000 divided into 158,000,000 units of SR 10 each. The Fund has a term of 99 years, which is extendable on the discretion of the Fund Manager following the approval of the CMA.

The Fund is being managed by Jadwa Investment Company, a Saudi Arabian closed joint stock company with commercial registration number 1010228782, and an Authorized Person licensed by the CMA under license number 06034-37 (the "Fund Manager").

The following entities have been established and approved by the CMA as special purpose vehicles (the "SPVs") for the beneficial interest of the Fund:

1. Real Estate Development Areas Company, a Limited Liability Company with commercial registration number 1010385322.
2. Jadwa Al Masha'ar Real Estate Company, a Limited Liability Company with commercial registration number 1010495554.

The primary investment objective of the Fund is to provide its investors with regular income by investing in income-generating real estate assets in Saudi Arabia, excluding the Holy Cities of Makkah and Medina.

While the Fund will primarily invest in developed real estate assets which are ready for use, it may also opportunistically invest in real estate development projects in a value not exceeding 25% of the Fund's total asset value with the aim of achieving an increase in value per unit; provided that (i) at least 75% of the Fund's total assets are invested in developed real estate assets which generate periodic income and (ii) the Fund shall not invest in White Land.

2. REGULATING AUTHORITY

The Fund is governed by the REIFR published by the CMA in the Kingdom of Saudi Arabia on 19 Jumada II 1427 H (corresponding to 15 July 2006) and REITF instructions published by CMA on 23 Muharram 1438 H (corresponding to 24 October 2016), detailing requirements for all real estate Funds operating within the Kingdom of Saudi Arabia.

3. BASIS OF PREPARATION

3.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and as endorsed in the Kingdom of Saudi Arabia.

3.2 Basis of measurement

These financial statements have been prepared under the historical cost convention, using accrual basis of accounting and the going concern concept.

3.3 Functional and presentation currency

These financial statements are presented in Saudi Riyals ("SR"), which is the functional currency of the Fund. All financial information has been rounded off to the nearest SR.

AUDITED FINANCIAL STATEMENT

31, December 2018

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In the ordinary course of business, the preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the period in which the estimates are reviewed and in any future period affected. The significant accounting judgments and estimates applied in the preparation of these financial statements are as follows:

4.1 Useful lives of investment properties

The management determines the estimated useful lives of investment properties for calculating depreciation. This estimate is determined after considering expected usage of the assets and physical wear and tear. Management reviews the residual value and useful lives annually and change in depreciation charges, if any, are adjusted in current and future periods. The estimated useful lives of the investment properties are disclosed in note 6.

4.2 Impairment of investment properties

The Fund assesses whether there are any indicators of impairment for all investment properties at each reporting date. The investment properties are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows.

4.3 Impairment of financial assets held at amortised cost

The Fund assesses on a forward-looking basis the expected credit loss ("ECL") associated with its financial assets carried at amortised cost. The Fund recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of resources; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

5. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements are as follows:

5.1 Investment properties

Investment properties comprise completed properties that are held to earn rentals or for capital appreciation or both. Investment property is stated at cost including transaction costs net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met.

The cost less estimated residual value, if any, of investment property is depreciated on a straight-line basis over the estimated useful lives of the assets. Land, on the other hand, is reported at cost.

The fair value of investment properties is disclosed in note 7.

5.2 Impairment of non-financial assets

The carrying values of non-financial assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the statement of comprehensive income.

5.3 Cash and cash equivalents

For the purposes of cash flows statement, cash and cash equivalents consists of bank balances.

5.4 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

5.4.1 Initial recognition and measurement of financial instruments

The Fund initially recognises financial assets and financial liabilities when it becomes party to the contractual provisions of the financial instrument.

Initial measurement of the financial instrument is at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets carried at FVTPL are expensed in the statement of comprehensive income.

5.4.2 Financial assets – subsequent classification and measurement

Financial assets are subsequently measured at amortised cost, fair value through other comprehensive income ("FVOCI") or FVTPL. There are two criteria used to determine how financial assets should be classified and measured:

- The Fund's business model for managing the financial assets; and
- The contractual cash flow characteristics of the financial asset

AUDITED FINANCIAL STATEMENT

31, December 2018

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

A financial asset is measured at amortised cost if the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Otherwise, a financial asset is measured at FVTPL.

The Fund has no financial assets measured at FVTPL and FVOCI.

The Fund derecognises a financial asset when the rights to the cash flows from the financial asset have expired or where the Fund has transferred substantially all risks and rewards associated with the financial asset and does not retain control of the financial asset.

5.4.3 Impairment of financial assets

The Fund assesses on a forward-looking basis the ECL associated with its debt instruments as part of its financial assets, carried at amortised cost and FVOCI, the ECL is based on a 12-month ECL and life time ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. Where there is no significant financing component in the financial instruments recognised at amortised cost or FVOCI, then the Fund can use simplified approach and assess allowance on lifetime ECL using a forward-looking provision matrix.

As at period end, the Fund has bank balances, rent receivables and due from a related party as financial assets carried at amortised cost.

The bank balances are demand deposits with reputable financial institutions with investment grade credit rating. These financial institutions are highly capitalised and sufficiently liquid. They adhere to strict requirements of their regulator with respect to capital adequacy and liquidity requirements. Further, based on the economic review in general and assessment of the forecast of the Saudi Arabian Financial Institutions specifically by the reputable financial analyst and other agencies, the management believes that the financial institutions will continue their positive capital of liquidity requirements. Accordingly, the management believes no provision is required at this stage.

With respect to rent receivables, these are short-term receivables which are current and are settled within a very short period of time. No provision has been booked on the rent receivables as the management expects the receivable to be fully recoverable.

5.4.4 Financial liabilities – subsequent classification and measurement

Financial liabilities are subsequently measured at amortised cost using the effective interest rate (“EIR”) method. The EIR is the rate that discounts the estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period to the net carrying amount on initial recognition.

The Fund derecognises a financial liability (or part of a financial liability) from its statement of financial position when, and only when, it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.

The Fund’s financial liabilities include due to related parties, accrued management fee and accrued expenses.

5.4.5 Offsetting of financial instruments

Financial assets and liabilities are offset with the net amount reported in the statement of financial position only if there is a current enforceable legal right to offset the recognised amounts and an intent to settle on a net basis, or to realise the assets and liabilities simultaneously.

5.5 Provision

Provisions are recognised when the Fund 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.

5.6 Revenue recognition

The Fund recognizes revenue from contracts with customers based on a five-step model as set out in IFRS 15, Revenue from Contracts with Customers:

1. Identify the contract with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria that must be met.
2. Identify the performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.
3. Determine the transaction price: The transaction price is the amount of consideration to which the Fund expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.
4. Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Fund will allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Fund expects to be entitled in exchange for satisfying each performance obligation.
5. Recognise revenue when (or as) the entity satisfies a performance obligation.

The Fund satisfies a performance obligation and recognizes revenue over time, if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Fund’s performance as the Fund performs; or
- The Fund’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- The Fund’s performance does not create an asset with an alternative use to the Fund and the Fund has an enforceable right to payment for performance completed to date.

For performance obligations, where one of the above conditions are not met, revenue is recognized at the point in time at which the performance obligation is satisfied. When the Fund satisfies a performance obligation by delivering the promised services, it creates a contract asset based on the amount of consideration earned by the performance. Where the amount billed to the customer exceeds the amount of revenue recognized, this gives rise to a contract liability. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment.

The specific recognition criteria described below must also be met before revenue is recognised.

Rental income

Rental income from operating lease of property is recognised on a straight-line basis over the term of the operating lease.

5.7 Management fees

Management fees are charged by the Fund Manager at the rate of 0.75% per annum of the Fund’s net asset market value. Management fee is calculated and payable semi-annually in arrears.

AUDITED FINANCIAL STATEMENT

31, December 2018

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

5.8 Expenses

General and administrative expenses include direct and indirect costs not specifically part of cost of sales as required under IFRS.

5.9 Net assets value

The net assets value per unit disclosed in the financial statements is calculated by dividing the net assets of the Fund by the number of units in issue at the period-end.

5.10 Zakat

Zakat is the obligation of the Unitholders and is not provided for in the financial statements.

5.11 Dividend distribution

The Fund has a policy of distributing and paying at least 90% of its net profit, not including profit resulting from the sale of the underlying real estate assets and other investments.

5.12 Standards effective 1 January 2018

The Fund has adopted the following new standards which have been issued and effective from 1 January 2018:

5.12.1 IFRS 9, Financial Instruments

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and the cash flow characteristics of the assets. It contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The standard eliminates the existing categories of held to maturity, loans and receivables and available for sale. Based on its assessment, the Fund believes that the new classification requirements have no impact on its accounting for financial assets.

IFRS 9 replaces the incurred loss model with a forward-looking ECL model. This requires considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortised cost. Based on its assessment, the Fund believes that there is no material impact on the financial statements from adopting IFRS 9 in respect of ECLs.

5.12.2 IFRS 15, Revenue from Contracts with Customers

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under the standard, revenue is recognised 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 application of this standard did not have an impact on the amounts presented in these financial statements.

5.13 Standards and interpretations issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Fund's financial statements are disclosed below. The Fund intends to adopt these standards, if applicable, when they become effective.

5.13.1 IFRS 16, Leases

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including 'IAS 17 Leases', 'IFRIC 4 Determining whether an Arrangement contains a Lease', 'SIC 15 Operating Leases – Incentives' and 'SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

The standard is effective for annual periods beginning on or after 1 January 2019 and earlier adoption is permitted.

The Fund is still assessing the potential impact of adopting the new standard on the financial statements.

5.13.2 Annual Improvements to IFRSs 2015-2017 Cycle

- IFRS 3, Business Combinations and IFRS 11, Joint Arrangements clarify how an entity accounts for increasing its interest in a joint operation that meets the definition of a business.
    - If a party maintains (or obtains) joint control, then the previously held interest is not remeasured.
    - If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value.
- IAS 12, Income Taxes, clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, other comprehensive income or equity.
- IAS 23, Borrowing Costs, clarifies that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any nonqualifying assets – are included in that general pool. As the costs of retrospective application might outweigh the benefits, the changes are applied prospectively to borrowing costs incurred on or after the date an entity adopts the amendments.

5.13.3 Other Amendments

The following new or amendments to standards are not yet effective and neither expected to have a significant impact on the Fund's financial statements:

- IFRS 9, Financial Instruments, Prepayment Features with Negative Compensation
- IAS 19, Employee Benefits, Plan Amendments, Curtailment or Settlement
- IAS 28, Investments in Associates and Joint Ventures, Long-term Interests in Associates and Joint Ventures
- IFRIC 23, Uncertainty over Income Tax Treatments

AUDITED FINANCIAL STATEMENT

31, December 2018

6. INVESTMENT PROPERTIES

The composition of the investment properties as of the reporting date is summarized below:

Description	Cost SR	Accumulated depreciation SR	Net book value SR
Land	456,472,011	-	456,472,011
Alyaum Newspaper Tower	160,173,955	3,046,812	157,127,143
Almaarefa College	97,439,857	2,810,765	94,629,092
Al-Sulay Warehouse	147,534,425	5,529,142	142,005,283
Marvela Residential Compound	492,696,838	17,799,530	474,897,308
Al Fanar Residential & Commercial Compound	205,902,564	6,638,184	199,264,380
	1,560,219,650	**35,824,433**	**1,524,395,217**

6.1
The useful lives of the investment properties as estimated by an independent valuator range from 30 to 50 years.

6.2
Freehold land comprises of the lands acquired on which the buildings are built. The Fund acquired properties in Riyadh, Al Khobar and Dammam with an aggregate area of 377,502.39 square meter of land. The consideration for the properties was partly paid in cash and partly settled through issuance of 101,655,300 units of the Fund.

6.3
Brief details of the investment properties follow:

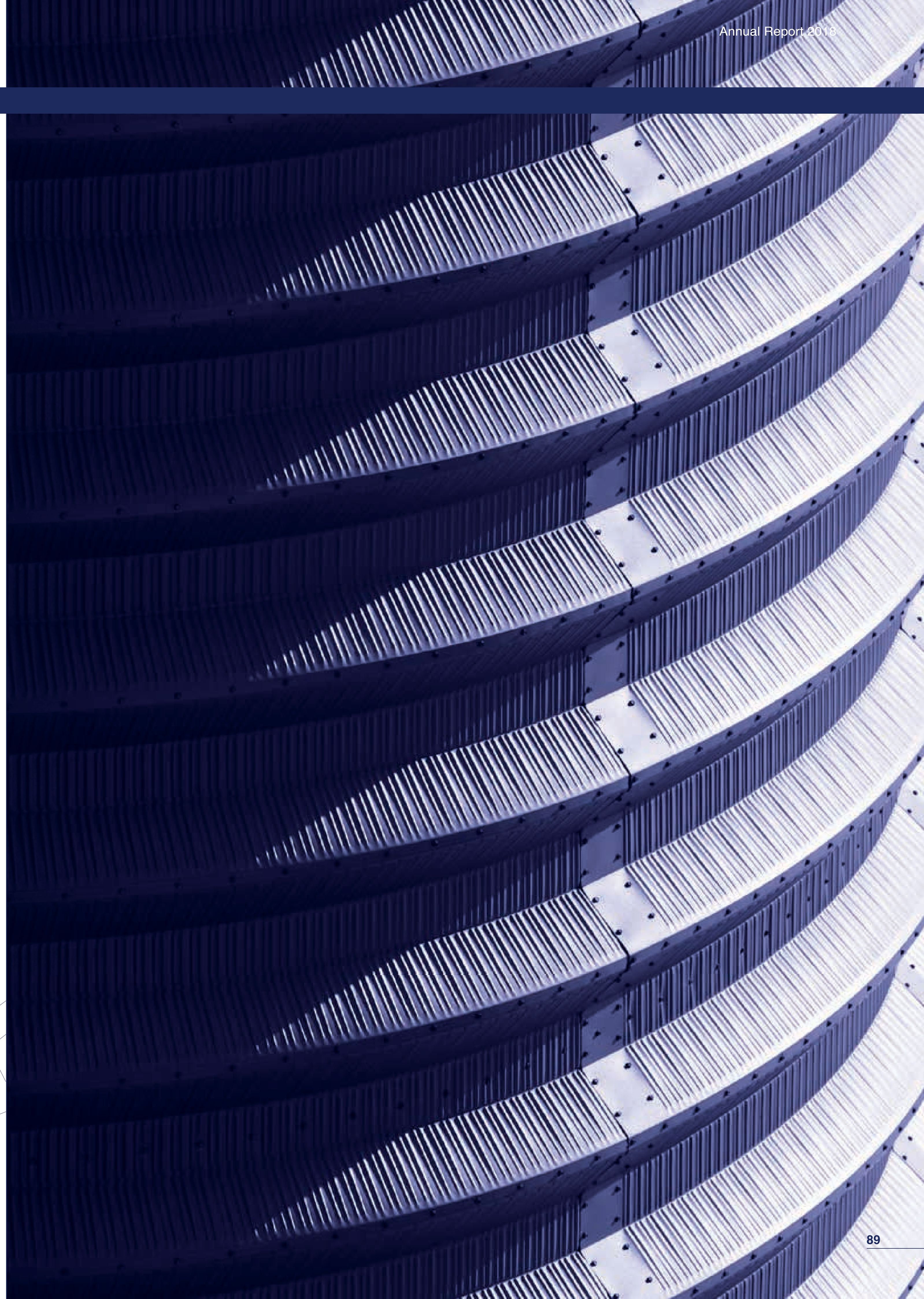
6.3.1 Alyaum Newspaper Tower
This property is a 16-storey with 3- level basement, office building located in Al Hussam District, Dammam City.

6.3.2 Almaarefa College
This property is a fully constructed educational facility located in Al Diriah District, Riyadh.

6.3.3 Al-Sulay Warehouse
This property is an industrial compound located at the east corner of Haroon Al Rashid Road and Alsafa Street, within Al Sulay District, Riyadh.

6.3.4 Marvela Residential Compound
This property is a residential compound located along the southeast side of King Abdullah Road, within King Faisal District, Riyadh.

6.3.5 Al Fanar Residential & Commercial Compound
This property is a mixed-use project composed of residential and retail units located at the southwest corner of King Faisal Road and 1 Street, within Ar Rawabi District, Al Khobar.



AUDITED FINANCIAL STATEMENT

31, December 2018

7. EFFECT ON NET ASSET VALUE IF INVESTMENTS IN REAL ESTATE PROPERTIES ARE FAIR VALUED

In accordance with Article 21 of the REIFR issued by CMA in the Kingdom of Saudi Arabia, the Fund Manager evaluates the Fund's real estate assets based on two evaluations prepared by independent evaluators. However, in accordance with the requirement in the Kingdom of Saudi Arabia, investment in real estate properties are carried at cost less depreciation and impairment, if any, in these financial statements.

Accordingly, the fair value below is disclosed for information purposes and has not been accounted for in the Fund's books.

The fair value of the investment properties is determined by two selected appraisers, i.e. ValuStrat and White Cubes. As at period end, the valuation of investment properties are as follows:

	Appraiser 1 SR	Appraiser 2 SR	Average SR
Alyaum Newspaper Tower	318,000,000	288,900,000	303,450,000
Almaarefa College	228,500,000	220,700,000	224,600,000
Al-Sulay Warehouse	276,000,000	235,300,000	255,650,000
Marvela Residential Compound	645,000,000	645,200,000	645,100,000
Al Fanar Residential & Commercial Compound	268,300,000	259,700,000	264,000,000
	1,735,800,000	**1,649,800,000**	**1,692,800,000**

Management has used the average of the two valuations for the purposes of disclosing the fair value of the investment properties.

The investment properties were valued taking into consideration number of factors, including the area and type of property. Below is an analysis of the investment properties' fair value against cost:

7.1 The unrealised gain on investment properties based on fair value evaluation is set out below:

	SR
Fair value of investments in real estate properties	**1,692,800,000**
Less: Carrying value of investments in real estate properties (note 6)	**1,524,395,217**
Unrealised gain based on fair value evaluation	**168,404,783**
Units in issue	**158,000,000**
Per unit share in unrealised gain based on fair value evaluation	**1.06**

7.2 The net asset value using the fair values of the real estate properties is set out below:

	SR
Net asset value at cost, as presented in these financial statements	**1,574,808,862**
Unrealised gain based on real estate evaluations (note 7.1)	**168,404,783**
Net asset based on fair value	**1,743,213,645**

7.3 The net asset value per unit, using the fair values of the real estate properties is set out below:

	SR
Net asset value per unit, at cost as presented in these financial statements	**9.97**
Impact on net asset value per unit on account of unrealised gain based on fair value evaluations (note 7.1)	**1.06**
Net asset value per unit at fair value	**11.03**

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8. RENT RECEIVABLES

This account represents the rent receivable from the operating leases (see note 18).

Following is the ageing analysis of the receivables:

	SR
Less than 30 days	25,963,238
Between 31 to 60 days	-
Between 61 to 90 days	-
Between 91 to 120 days	619,452
More than 120 days	-
	26,582,690

No provision has been booked on the above receivables, as the Fund expects the receivable to be fully recoverable. The receivables are secured by promissory notes and/or pledge of units in the Fund.

9. PREPAYMENTS AND VALUE-ADDED TAX

	SR
Input value-added tax	10,240,609
Prepaid expenses	105,507
	10,346,116

10. BANK BALANCES

As of 31 December 2018, two of the four bank accounts are maintained with Banque Saudi Fransi ("BSF") under the name of the SPVs with a total balance of SR 14,284,521.

11. ACCRUED EXPENSES

	SR
Professional fees	166,403
Custody fee	80,658
Property valuation fees	48,934
	295,995

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12. RELATED PARTY TRANSACTIONS AND BALANCES

The following are the details of the significant transactions with related parties during the current period:

Related party	Nature of relationship	Nature of transaction	Amount of transaction SR
Jadwa Investment Company	Fund Manager	Paid on behalf of the Fund	**34,021**
		Management fee (note 12.1)	**(12,301,877)**
AbdulKadir Al Muhaidib & Sons Co.	Unitholder	Rental revenue from investment properties	**81,482,877**
Almareefa College for Science & Technology	Unitholder	Rental revenue from investment properties	**14,465,754**

12.1 Management fee

In consideration for managing the assets of the Fund, the Fund Manager in accordance with the Terms and Conditions of the Fund charges the Fund a management fee equal to 0.75% of the net asset market value of the Fund calculated and payable semi-annually in arrears.

For the dividends distributed to the unitholders, please refer to note 21.

The following are the details of related party balances at period end:

Amounts due to related parties	SR
Jadwa Investment Company	**34,021**
Unitholders - Unpaid dividends	**25,420**
	59,441

Accrued management fee	SR
Jadwa Investment Company	**6,619,153**

13. REMUNERATION TO INDEPENDENT DIRECTORS

During the period ended 31 December 2018, the following expense in relation to the independent directors is included in the general and administrative expenses:

	SR
Board oversight fee	**20,000**

14. UNIT TRANSACTION

Transaction in units of the Fund for the period is summarised as follows:

	30 June 2018 In numbers
Units issued during the period for consideration in cash (note 14.1)	**56,344,700**
Units issued during the period for consideration other than cash (note 14.2)	**101,655,300**
Units at the end of the period	**158,000,000**

14.1

During the period, the Fund issued 56,344,700 units for SAR 563,447,000 to the general public.

14.2

During the period, the Fund issued 101,655,300 units as a consideration for the purchase of investment properties (note 6).

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15. TERM LOAN

On 1 October 2018, BSF has extended an Islamic finance facility to one of the SPVs, Real Estate Development Areas Company, amounting to SR 1,000,000,000 for the purposes of financing the real estate investments of the Fund. The SPV has made an arrangement with the Fund under a long-term loan agreement to lend all the loan proceeds availed by it under the facility to the Fund on terms and conditions same as that of the facility.

The facility and correspondingly the loan is available till 1 October 2021 and is repayable in full on 31 July 2023. As at 31 December 2018, the Fund has not drawn any amount from the facility.

The facility is secured by promissory notes and pledge over the current and future rights and interests in the investment properties of the Fund.

16. GENERAL AND ADMINISTRATIVE EXPENSES

	SR
Registration fee	450,382
Professional fees	439,472
Custody fee	323,946
Listing fee	320,822
Administration fee	121,225
Property valuation fees	97,994
Legal fee	78,442
Board oversight fee (note 13)	20,000
Others	94,297
	1,946,580

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17.FAIR VALUE MEASUREMENT

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

Assets and liabilities for which fair value is recognised or disclosed are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

17.1 Financial instruments

Financial assets consist of bank balances, rent receivables and due from a related party. Financial liabilities consist of due to related parties, accrued management fee and accrued expenses. The fair values of financial assets and financial liabilities are not materially different from their carrying values.

17.2 Non-financial assets

The following table shows the fair value of investment properties disclosed as at period end:

	Level 1 SR	Level 2 SR	Level 3 SR	Total SR
Alyaum Newspaper Tower	-	303,450,000	-	**303,450,000**
Almaarefa College	-	224,600,000	-	**224,600,000**
Al-Sulay Warehouse	-	255,650,000	-	**255,650,000**
Marvela Residential Compound	-	645,100,000	-	**645,100,000**
Al Fanar Residential & Commercial Compound	-	264,000,000	-	**264,000,000**
	-	1,692,800,000	-	**1,692,800,000**

When the fair value of items disclosed in these financial statements cannot be derived from active markets, their fair value is determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. The estimates include considerations of liquidity and model inputs related to items such as credit risk, correlation and volatility.

Changes in assumptions about these factors could affect the fair value of items disclosed in these financial statements and the level where the items are disclosed in the fair value hierarchy.

The fair values of investment properties were assessed by ValuStrat and White Cubes as disclosed in note 7. They are accredited independent valuers with a recognised and relevant professional qualification and with recent experience in the location and category of the investment properties being valued.

The valuation models have been applied in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation Standards, in addition to recently published International Valuation Standards issued by International Valuation Standards Council (IVSC) and applied by Saudi Authority for Accredited Valuers (TAQEEM). These models comprise both the income capitalisation approach and depreciated replacement cost (DRC).

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18. OPERATING LEASES

Future rental commitments under the operating leases are as follows:

	SR
Not later than one year	**127,255,674**
Later than one year and not later than five years	**414,246,569**
Later than five years	**262,025,744**
	803,527,987

The Fund enters into long-term operating lease contracts with tenants for space in its investment properties. Initial lease terms are generally between three and 20 years. Leases generally provide for the tenant to pay the base rent, with provisions for contractual increases in base rent over the term of the lease. Responsibility for repair and maintenance of the property, and its insurance over the lease term lies with the lessee.

19. FINANCIAL RISK MANAGEMENT

The Fund's activities expose it to a variety of financial risks: market risk, credit risk, liquidity risk and property risk.

The Fund Manager is responsible for identifying and controlling risks. The Fund Board supervises the Fund Manager and is ultimately responsible for the overall management of the Fund.

The Fund has its Terms and Conditions document that sets out its overall business strategies, its tolerance of risks and its general risk management philosophy and is obliged to take actions to rebalance the portfolio in line with the investment guidelines.

19.1 Market risk

The Fund will be subject to the general conditions of the real estate sector in Saudi Arabia, which itself is influenced by a variety of factors such as, but not limited to the overall macroeconomic growth in the kingdom, interest rates, demand-supply, availability of financing, investor sentiment, liquidity, legal and regulatory requirement. The Fund management monitors on a regular basis the fluctuation and changes in the overall economic environment and believes that the impact of such changes is not significant to the Fund.

19.2 Credit risk

Credit risk is the risk of financial loss to the Fund if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Bank balances are placed with banks having sound credit ratings. The Fund seeks to limit its credit risk with respect to counterparties by setting credit limits for individual counterparties and by monitoring outstanding receivables.

The maximum exposure to credit risk applicable to the Fund approximates to the carrying value of the financial assets as disclosed in these financial statements.

19.3 Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in raising Funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient Funds are available to meet any future commitments.

The table below summarises the maturity profile of the Fund's financial liabilities based on contractual undiscounted payments:

31 December 2018	On demand SR	Less than 3 months SR	Total SR
Due to related parties	59,441	-	59,441
Accrued management fees	-	6,619,153	6,619,153
Accrued expenses	-	295,995	295,995
	59,441	**6,915,148**	**6,974,589**

19.4 Property risk

Property risk is the risk related to the investment properties of the Fund. The Fund's management has identified the risk that a tenant may become insolvent causing a significant loss of rental income and a reduction in the value of the associate property.

To reduce this risk, the Fund reviews the financial status of all prospective tenants and decides on the appropriate level of security required via promissory notes.

20. OPERATING SEGMENT

The Fund is organised into one operating segment. All of the Fund's activities are interrelated and each activity is dependent on the others. Accordingly, all significant operating decisions are based upon analysis of the Fund as one segment.

21. DIVIDENDS DISTRIBUTION

On 16 April 2018, the Fund Manager approved to distribute dividends to the unitholders for the period from 11 February 2018 to 31 March 2018 for an amount of SR 15,800,000 in accordance with the terms and conditions of the Fund which was at least 90% of the Fund's annual net profits.

On 23 July 2018, the Fund Manager approved to distribute dividends to the unitholders for the period from 1 April 2018 to 30 June 2018 for an amount of SR 28,440,000 in accordance with the terms and conditions of the Fund which was at least 90% of the Fund's annual net profits.

On 22 October 2018, the Fund Manager approved to distribute dividends to the unitholders for the period from 1 July 2018 to 30 September 2018 for an amount of SR 28,440,000 in accordance with the terms and conditions of the Fund which was at least 90% of the Fund's annual net profits.

22. SUBSEQUENT EVENTS

On 27 January 2019, the Fund acquired an educational property along Prince Abdulaziz Bin Thunayan Street, Nakheel District, Riyadh at a total value of SR 25,650,000 which was financed through the existing credit facility obtained from BSF (see note 15).

On 12 February 2019, the Fund Manager approved to distribute dividends to the unitholders for the period from 1 October 2018 to 31 December 2018 for an amount of SR 28,440,000 in accordance with the terms and conditions of the Fund which was at least 90% of the Fund's annual net profits.

23. LAST VALUATION DAY

The last valuation day of the period was 31 December 2018.

24. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Fund's Board on 21 Jumada Al-Thani 1440 H (corresponding to 27 February 2019).

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