تداول
Tadawul

السوق المالية السعودية
Saudi Stock Exchange

Annual Report 2018

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Tadawul

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Saudi Stock Exchange

Annual Report
2018

My primary goal is to create an exemplary and leading nation in all aspects, and I will work with you in achieving this endeavour.

King Salman Bin Abdulaziz Al-Saud
Custodian of the Two Holy Mosques

We will encourage our major corporations to expand across borders and take their rightful place in global markets.

Mohammed Bin Salman Bin Abdulaziz Al-Saud
Crown Prince and Chairman of the Council of Economic and Development Affairs

VISION رؤية
2030
المملكة العربية السعودية
KINGDOM OF SAUDI ARABIA

Reporting period and boundary

The financial and operational aspects of Tadawul, Edaa (Securities Depository Centre Company), and Muqassa (Central Counterparty Clearing House) are covered in this Report. The only change in the reporting boundary since 2017 has been the formation of Muqassa as a separate company in May 2018. The Report covers the period from 1 January 2018 to 31 December 2018, which is consistent with our annual reporting cycle. The Report has been issued in both Arabic and English and in the event of any discrepancy the Arabic version shall prevail.

Reporting channels

We have used multiple mediums and formats to effectively meet the diverse interests of our different stakeholder groups while balancing the twin goals of conciseness and completeness.

The print version of the annual report is identical to its PDF counterpart.

The interactive online HTML version of the annual report provides features including those for ease of finding, recording, extracting, and sharing information.

Scan to view the online version of this annual report

The web and mobile HTML versions are published online on the same date as the date of issue of this publication at https://annualreport2018.tadawul.com.sa

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About Tadawul

As a key enabler of capital formation, Tadawul is playing a leading role in the development of the Kingdom.

Who we are

Formed on 19 March 2007 as a joint stock company in accordance with article 20 of the Capital Market Law, Tadawul is the sole entity in the Kingdom authorized to act as a securities exchange.

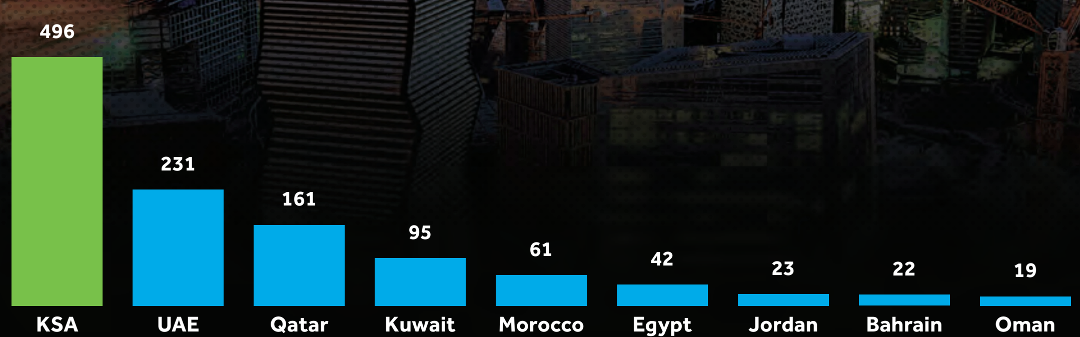
In carrying out its operations, Tadawul is supported by the two wholly-owned subsidiary companies, Edaa and Muqassa.

The capital of Tadawul is SAR 1.2 Bn divided into 120 million shares of equal value of SAR 10 each. All shares have been subscribed to by the Public Investment Fund (PIF).

Tadawul is an affiliate member of the International Organization of Securities Commissions (IOSCO), the World Federation of Exchanges (WFE), and the Arab Federation of Exchanges (AFE). Tadawul's CEO is currently a members of the Board of Directors for WFE.

In December 2018, Tadawul became a partner exchange member of the United Nations Sustainable Stock Exchanges (SSE).

Market capitalization (USD Bn)
as at 31 December 2018



What we do

Tadawul provides a platform for the listing and trading of a variety of securities such as equities, Real Estate Investment Traded Funds (REITs), Exchange Traded Funds (ETFs), Corporate and Government Bonds and Sukuks.

We are also closely aligned with the overarching framework of the Kingdom's Vision 2030 programme which aspires to bring Saudi Arabia within the circle of developed nations. Tadawul directly supports several Vision 2030 goals including increasing the private sector's contribution to the economy, drawing in more foreign investment, and growing the SME sector.

Over 70% of the ownership in the market is institutional, which is an indication of the maturity of our market. During the year under review, we have greatly expanded the number of Qualified Foreign Investors (QFIs) by easing requirements and active promotion.

The Securities Clearing Center Company (Muqassa) was established in 2018 as a closed joint stock company fully owned by the Saudi Stock Exchange (Tadawul), which contributes to reducing post-trade risks and the development of clearing services in accordance with international risk management practices. Muqassa will be activated in the market once all required regulatory approvals are complete in 2019.

Tadawul has now become a partly self-regulating organization, by taking over some functions from the Capital Market Authority (CMA) such as approving listings.

VISION

To be an integrated financial exchange that fosters the development of a diverse Saudi capital market and competes internationally.

MISSION

To offer sound, efficient and attractive capital market products and services that deliver superior value to our market participants and stakeholders.

Value traded (USD Bn)
for the year ended 31 December 2018

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It was a banner year for Tadawul

Upgrading to emerging market status

FTSE Russell MSCI S&P Dow Jones Indices A Division of S&P Global

Supported by:

- Forming Muqassa that will be responsible for developing future clearing services in accordance with the best international risk management practices and standards.
- Removing cash prefunding as a requirement for trading.
- Moving to a Delivery vs Payment (DvP) model where the delivery of securities occurs only if the corresponding payment is effected.
- Enhancing the Independent Custody Model (ICM) to ease QFI access to the market.
- Moving to an auction method for opening and closing prices, which aligned Tadawul with international best practices.
- Announcing the launch of a derivatives market as an active platform to encourage investment and diversify the investor base.

Resulted in:

The number of Qualified Foreign Investors (QFIs) growing from about 100 at the beginning of the year to nearly 500 the end of the year.

12 NEW LISTINGS

Main Market	2
Nomu	1
REITs	9

Leading to a total of 190 listed companies

MT30

Agreement to launch joint index with MSCI in 2019

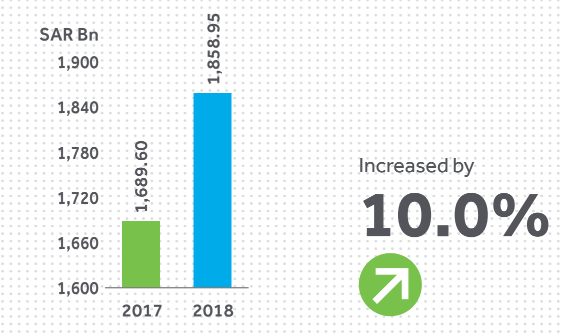
The index represents the largest and most liquid stocks, providing a useful benchmark for investors.

One of the five best performing stock markets in the world in 2018

in terms of the percentage increase of the market index.

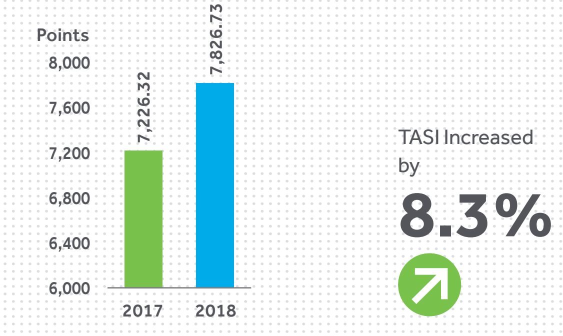
MARKET CAPITALIZATION

As at year end

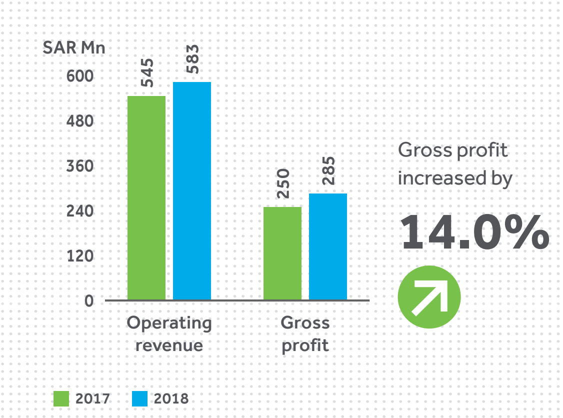


TADAWUL ALL SHARE INDEX

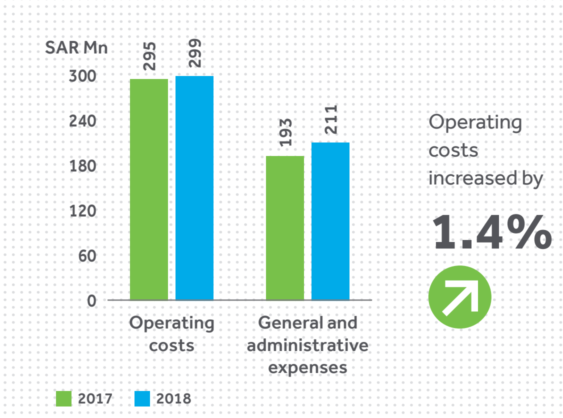
As at year end



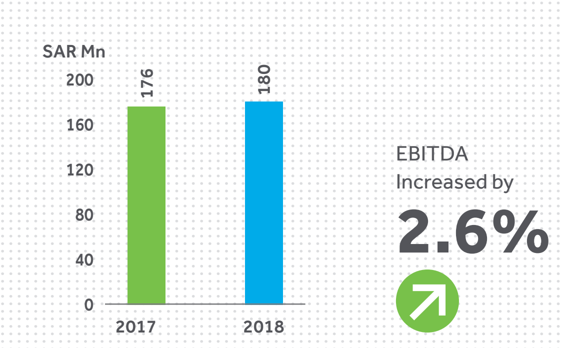
REVENUE AND PROFITABILITY



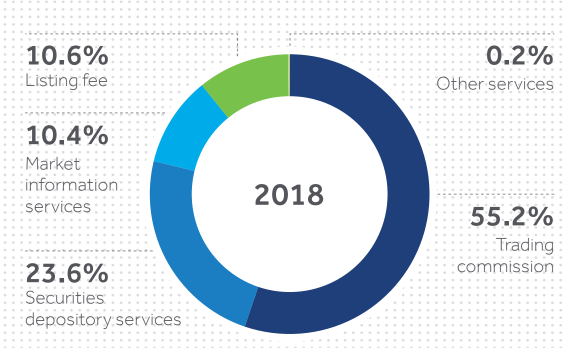
EXPENSES



EBITDA



COMPOSITION OF OPERATING REVENUE



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2018 Milestones

2018 Milestones

January
- Listing of AlAhli REIT Fund
- Listing of Al Mashaar REIT Fund
- Updating Independent Custody Model (ICM)
- Launching aggregate orders model
- Applying the new amendment for price limit validation on incoming orders

February
- Goldman Sachs Saudi Arabia joined Tadawul as a member
- Listing of Jadwa REIT Saudi Fund

March
- Announcing Tadawul's inclusion in FTSE Global Equity Index Series
- Listing of Al Rajhi REIT Fund
- Launching eReference Data
- Listing of Derayah REIT Fund

April
- Activating the Transition and Activation of Responsibilities (TAR) Programme
- Started implementing the listing rules that was issued by Tadawul and approved by the Board of the Capital Market Authority (CMA)
- Amending the Exchange and Centre Procedures
- Listing of Government Debt Instruments
- Listing of National Building and Marketing Company on Nomu - Parallel Market

May
- Listing of SEDCO Capital REIT Fund
- Formation of Muqassa
- Implementing new mechanism for opening and closing price calculation for the main market and Nomu – Parallel Market
- Publishing listing guide

June
- Announcing Tadawul's inclusion in MSCI Emerging Market Index

July
- Announcing Tadawul's inclusion in S&P Dow Jones Index
- Announcing the commencement of Direct Market Access
- Listing of Bonyan REIT Fund
- Publishing investor relations toolkit

August
- Approving the Trading and Membership Rules and Procedures
- Listing of Swicorp Wabel REIT Fund

September
- Signing an Agreement with MSCI to launch a Joint Tradable Index
- Announcing launch of Derivatives Market in the second half of 2019
- Listing of Leejam Sports Company on the Main Market

October
- Amending the Disclosure Mechanism for Major Shareholders in Listed Companies
- Publishing the Listed Companies Share Buy-back Ownership Report
- Launching the "Post-listing Support" initiative
- Amending Listing Rules and Glossary of Defined Terms used in the Exchange Rules
- Signing an MoU with Fintech Saudi
- Being recognized as "Best Talent Acquisition Team" in the public sector
- Launching of enhanced career path for Tadawul employees

November
- Listing of Middle East Financial Investment Company's "MEFIC REIT"
- Publishing the drafts of market making regulations for public consultation
- GIB Capital joined Tadawul as a member
- Listing of National Company for Learning and Education on the Main Market

December
- Launching eReference Data Service for individuals
- Joining United Nations Sustainable Stock Exchanges (SSE) initiative
- Signing MoU with King Khaled Foundation
- Attaining ISO 20000-1:2011 Service Management Systems Certificate

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Chairperson's statement

A GIANT LEAP FORWARD

I would summarize 2018 as the year in which we completed the process of opening up to the world.

Our journey towards becoming a global stock exchange saw three international benchmark indices announcing our impending upgrade from watch status to emerging market status. We concurrently witnessed a tremendous increase in the number of Qualified Foreign Investors, from around 100 to nearly 500. These achievements did not come easily. We conducted 27 road shows and participated in over 40 meetings to attract foreign investors; we spoke to fund managers, brokers, custodians and potential investors. These outreach programmes were attended by over 100 institutional investors with total assets under management of USD 20 Tn. In the process, we educated investors on the potential of the Saudi market and recent developments. We also educated ourselves on the needs and perceptions of investors.

TODAY WE ARE RECOGNIZED AS A GLOBAL DESTINATION FOR INVESTMENT. WE WILL NOW GO FORWARD TO BECOME A REGIONAL AND THEN A GLOBAL LISTING CENTRE.

A leader in the GCC

Today we are the largest and most liquid stock market not only in the GCC, but in the entire Middle East and North African region. In 2018, we accounted for 53% of the total market capitalization and 82% of the total value traded in the GCC region.

We are diversifying the asset classes that are traded on Tadawul. Back in 2016, we introduced REITs, and in 2018 we commenced listing and trading of government bonds. Introduction of derivatives is planned for 2019. An indication of the maturity of our market is that over 70% of the ownership in the market is institutional.

Our role in Vision 2030 and the FSDP

Vision 2030 is the overarching plan which guides the development of the Kingdom. One of its pillars is becoming a global investment powerhouse, and Tadawul's mission is naturally aligned with it. We continue to support the realization of Vision 2030's specific goals such as growing the private sector's contribution to the GDP, increasing foreign investment, and increasing the contribution of the SME sector.

Several programmes have been launched to support the implementation of Vision 2030, one of which is the Financial Sector Development Program (FSDP). This plan endeavours to create a dynamic, efficient and effective financial services sector that will generate the financial resources needed for the remaining programmes. The first objective of FSDP is to ensure the formation of an advanced capital market; Tadawul is well on that path.

The programme also includes some short-term targets to be achieved by 2020. One is to increase the total financial assets to GDP ratio from 192% in 2016 to 201%. Another is to increase the share of capital market assets to total financial assets from 41% in 2016 to 45%. Tadawul has a major role to play in achieving these targets.

Looking to the future

Today we are recognized as a global destination for investment. We will now go forward to become a regional and then a global listing centre. The liquidity of our market will make it attractive for foreign companies seeking capital to list with us. As the largest market in the GCC, we are well positioned to become the gateway to the region for investors.

We embarked on a new five-year strategic plan in 2018. It is built on a structure comprising seven strategic pillars, under which are 28 initiatives. Within the first year, we embarked on implementing the majority of these initiatives and are making sound progress.

The cornerstones of our success

The Board of Directors and the CEO, with their wealth of knowledge and experience, have given unstinted support in charting a new strategic course. The Senior Management team has made a great contribution in strategy execution and guiding the operations of the organization, underpinned by the dedication and hard work of our employees. I thank the Capital Market Authority (CMA) for its support and guidance, while not forgetting the issuers, investors, brokers and other market participants who have placed their confidence in us. With the continued support of all our stakeholders, I am confident that Tadawul will grow from strength to strength in fulfilling its vision.

Sarah Al-Suhaimi
Chairperson

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Chief Executive Officer's message

THE SPRINGBOARD

The bold steps we took during previous years set the stage for the milestones we achieved in 2018.

It was a remarkable year for Tadawul. Our move to emerging market status was announced. We also made great strides in attracting Qualified Foreign Investors, and aligned our organization structure and internal processes with our new strategies to harness business and growth opportunities. Our market statistics showed a very commendable performance in what was a lacklustre year for most stock markets.

The several initiatives we undertook during previous years propelled us to scale greater heights during 2018.

For example, during 2017 we moved from a T+0 to a T+ 2 payment cycle; launched our parallel market Nomu for the SME sector; made our Securities and Depository Centre (Edaa) into a separate legal entitiy wholly owned by Tadawul; and closed the year by signing a post-trade technology agreement with NASDAQ.

CAPITAL INFLOWS BETWEEN USD 40-50 BN ARE EXPECTED IN 2019 CONSEQUENT TO THE UPGRADING TO EMERGING MARKET STATUS AND THE RAPID GROWTH IN QFIs.

Key milestones

The crowning achievement of the year was the announcement of our forthcoming upgrade to emerging market status in three global indices, namely, FTSE Russell, MSCI and S&P DJI. Tadawul was previously granted watch list status in the three indices. The upgrading will become effective in the three indices in 2019. The fact that we have come close to achieving emerging market status in a short period of time augurs well not only for Tadawul but also for the Kingdom as a whole considering our role in supporting the goals of Vision 2030.

The year 2018 also saw the establishment of the Securities Clearing Center Company (Muqassa) as a closed joint stock company fully owned by the Saudi Stock Exchange (Tadawul). Muqassa will be activated in the market once all required regulatory approvals are complete in 2019.

The establishment and operation of Muqassa is considered as an important aspect in developing the market infrastructure in order to enhance market efficiency and expansion to new products and services. In addition, Muqassa will contribute to reducing post-trade risks and the development of clearing services in accordance with international risk management practices.

The Independent Custody Model (ICM), which enables authorized parties to hold shares on behalf of investors was updated during the year. The requirements for Qualified Foreign Investors was also eased, expanding the range of institutional investors who may participate.

While these developments were underpinned by technological and infrastructural changes there were many other issues that had to be ironed out. We engaged with a large number of stakeholders, both internal and external, and reached consensus through numerous discussions and consultations with them.

The people factor

However developed our infrastructure and technology may be, we cannot derive optimal benefits without the appropriate human resources. We are committed to Saudization, one of the goals of Vision 2030; 91.3% of our employees are Saudis. Our intentions are two-fold. One is to fill gaps in the available skills. The other is to train and develop Saudis to be effective in their job roles. Our HR strategies are closely aligned to our organizational strategies. During 2018 an Employee Career Path Programme and a Graduate Development Program were launched. Building and sustaining leadership skills as well as building a winning culture were core HR objectives. Out of total employee hours 2.6% were devoted to training which demonstrates our commitment to staff development; in addition 72% of employees received training.

Market performance

Our market statistics speak for the progress Tadawul made during the year. The Tadawul All Share Index (TASI) reached 7,826.73 as against 7,226.32 at the end of the previous year which was an increase of 8.3%. Our market capitalization, which was SAR 1,689.60 Bn at end 2017, increased by 10.0% to reach SAR 1,858.95 Bn. The value of shares traded was SAR 870.87 Bn during 2018, an increase of 4.1% over the 2017 figure of SAR 836.28 Bn. These achievements are all the more impressive when seen against the backdrop of a year where the emerging market index suffered a sharp decline.

Financial performance

We achieved a commendable financial performance in 2018. The operating revenue increased by 6.9% to SAR 583 Mn in 2018, while the gross profit increased by 13.9% to reach SAR 285 Mn. On the other hand, the operating profit showed an increase of 29.2% to reach SAR 74 Mn. The fact that the operating profit outperformed the operating revenue and gross profit in percentage increase demonstrates the success of our cost containment initiatives.

The road ahead

A development which is on the cards for the second half of 2019 is the launching of the derivatives market; initially the introduction of index futures to be followed by options and other derivatives.

The Post-Trade Technology Agreement with NASDAQ will take Tadawul's technology to the next level by replacing the legacy registry, depository and risk management system. This will enable a new counterparty clearing system, facilitate the introduction of new asset classes, and smoothen the process of offering new services to investors.

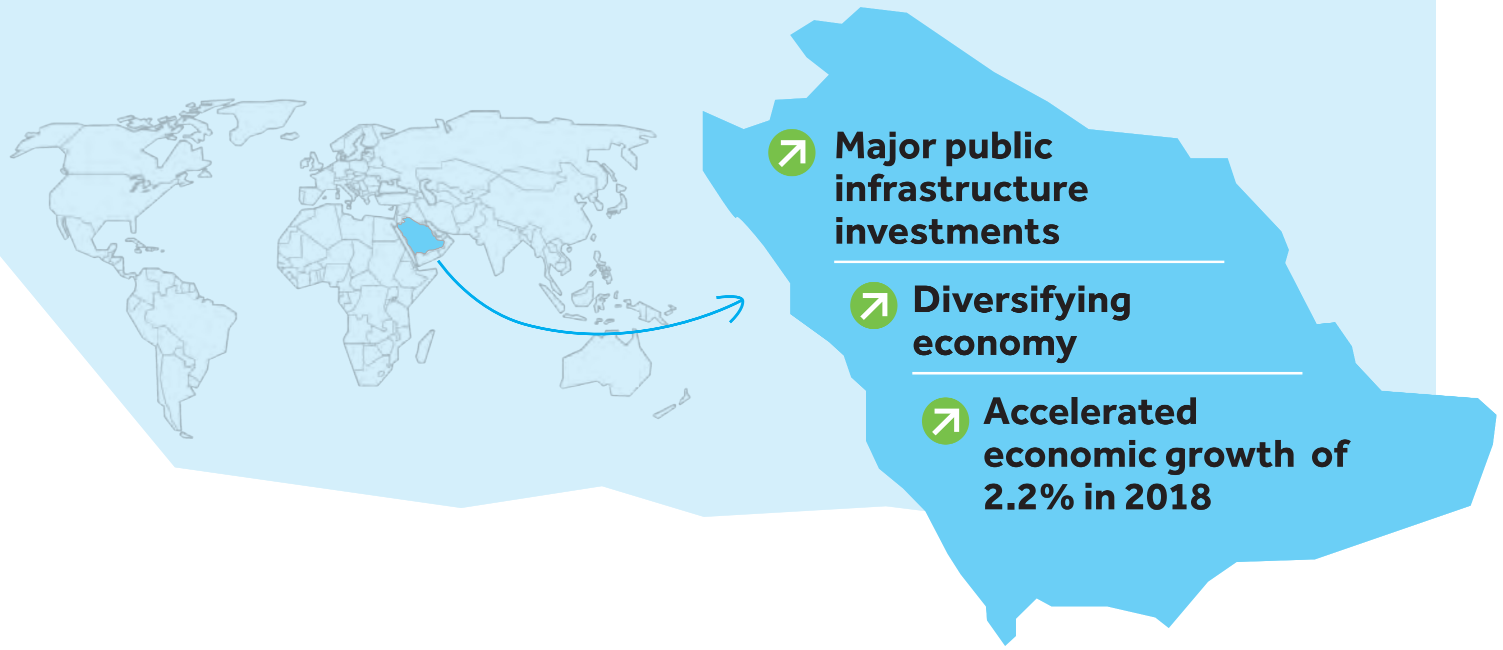
A high level of liquidity is one of our strengths. The measures we have taken to promote transparency and efficiency as well as improving our infrastructure should continue to attract more listings and investors, especially foreign investors. We are well on course in our strategy execution and thus continue to support the economic development of the Kingdom and the prosperity of her people.

In conclusion, I wish to thank the Chairperson for her unstinting guidance and support and our employees for their commitment and dedication.

Khalid Abdullah Al Hussan
Chief Executive Officer

Macroeconomic environment

Global markets present a challenging environment



> It was generally a challenging year for stock markets around the globe in 2018. The FTSE all world index, which includes thousands of stocks globally, declined by 12%; a stark reversal from 2017 when it rose by 25%. This was the Index's worst performance since the global financial crisis.

GCC countries are witnessing accelerated economic growth buoyed by higher oil prices (compared to 2017) and eased fiscal consolidation which will spur domestic demand.

In 2017, the Saudi Government initiated major reforms to lessen the dependence on oil of the economy and increase the role of the private sector in line with Vision 2030. Fiscal consolidation measures including VAT were introduced.

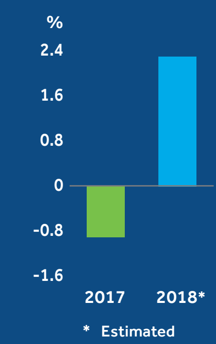
The GDP is estimated to have grown by 2.2% in 2018 and is projected to grow by 1.8% in 2019 (2017: negative 0.9%), driven by higher oil prices, easing of production constraints and increased consumer spending. Non-oil GDP is also showing a healthy growth, and year on year growth in non-oil exports registered 26% in April 2018. VAT and other taxes have led to an increase in non-oil revenues. The fiscal position has also been improved by reduced fuel subsidies, and increased electricity tariffs. The budget deficit was 4.6% of GDP in 2018 and is forecast to further narrow to 4.2% in 2019.

Consumer price inflation of around 3% is forecast for 2018, consequent to the introduction of VAT and price increases but is expected to stabilize at around 2% in 2019. The current account surplus is expected to be around 10% of GDP in 2018, for which increased oil export revenue was a contributory factor. The adoption of Vision 2030 has brought several reforms in its wake such as improving the business environment, developing the SME sector, deepening capital markets, increasing participation of women in the economy and developing industries with high growth potential. The opening of the stock market to foreign investors and creation of a parallel market for the SME sector have been major milestones.

Macroeconomic environment

> With the implementation of the Vision 2030 reforms, the economy of the Kingdom is expected to see continued non-oil growth and an enhanced role for the private sector in the years ahead.

Saudi Arabia GDP growth rate



Increased by

320 bps

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Engaging with stakeholders

In the course of its operations Tadawul engages with a large number of individuals or entities who are impacted by its operations or can make an impact on Tadawul by their actions, opinions, or perceptions. These include issuers, investors, members, employees, and the regulator among others.

Investors

Investors are parties who buy and sell securities on the market. To promote the market, investors need to have confidence in the market. Tadawul facilitates this process by ensuring provision and access to comprehensive information. It also ensures that the market operates fairly, ethically, transparently, and efficiently.

Engagement channels

Statistical reports, press releases, roadshows, contact centre, social media, website, alerts, and notifications

Issuers

Issuers are companies or other entities which develop, register, and sell securities through a stock exchange. Apart from companies, other issuers can be Real Estate Investment Traded Funds (REITs), Exchange Traded Funds (ETFs) and the government debt instruments (Sukuk and bonds). Issuers comply with the detailed requirements of Tadawul and the Capital Market Authority (CMA) to obtain a listing approval.

Engagement channels

Exchange rules, roadshows, relationship managers, website, social media, contact centre, and press releases

Members

Members are brokerage firms who are authorized to conduct transactions on behalf of clients. Market makers who buy and sell securities on their own account as well as on behalf of clients, promote liquidity in the market.

Engagement channels

Statistical reports, exchange rules, press releases, website, workshops, and meetings

Support service providers

These are parties that provide services to the issuers and investors:

- Market research analysts
- Investment bankers
- Legal advisors
- Marketing advisors

Engagement channels

Statistical reports, exchange rules, press releases, website, workshops, and meetings

Employees

Tadawul's organizational capabilities are driven by its employees. Tadawul works with them to develop clear career progression and development plans. They are empowered, motivated, recognized, and given appropriate training and incentives to give their best in achieving the Organization's goals.

Engagement channels

Review meetings, performance management system, internal communications, and website

Media

Reporting of business journalists (who may rely mostly on stock market analysts) can also greatly influence investors, issuers, policy makers and the general public. Information about developments is communicated regularly and clearly to media. Press releases are a frequently used medium of communication.

Engagement channels

Press releases, press conferences, media interviews and website

Regulator

The regulator in this case is the CMA which is a regulatory and supervisory body over the functions of the capital market. It issues the necessary rules, regulations, and directives in order to create an environment of trust, fairness, and efficiency and ensures that all listed companies comply with disclosure requirements. In 2018, Tadawul became a partly self-regulatory organization taking over some functions from the CMA.

Engagement channels

Reports, accounts, and meetings

Data vendors and index providers

Tadawul licenses service providers to provide two types of information services. One is where data vendors disseminate market information according to a licence agreement. The other is index providers who create and disseminate indices.

Engagement channels

Statistical reports, corporate disclosures, website, and press releases

Community

The community is the ultimate beneficiary of all our activities. The fruits of the economic activity that is generated through the stock market finally reach all our citizens.

Engagement channels

Events and special programmes, especially those conducted at universities, social media, and website

Shareholders

The PIF is the 100% owner of Tadawul and receives dividends.

Engagement channels

Reports, accounts, and meetings

Strategy in action

> Our strategic plan envisages improving the Saudi capital market, its infrastructure, and upgrading our competencies to enable Tadawul to compete on a global scale.

In 2017, the Board of Directors of Tadawul unveiled a five-year strategic plan for the period 2018-2022. At the time Tadawul had already achieved the distinction of being the largest and most liquid stock market not only in the GCC, but in the whole MENA region.

Prior to the commencement of the plan, our focus was on building infrastructure to compete regionally and achieving internal operational excellence. Our new plan has broadened our horizons to growing the Saudi Arabian capital market, its infrastructure and our competencies to enable us to compete on a global scale.

Our strategy is supported by Vision 2030, Financial Sector Development Program (FSDP), and Capital Market Authority (CMA) strategies.

Aligned with Vision 2030

Vision 2030 is the overarching economic and social development strategy of the Kingdom. Its main themes are building a thriving economy, a vibrant society, and an ambitious nation, while one of its key pillars is for the Kingdom to become a global investment powerhouse.

Vision 2030 has a large number of specific goals and Tadawul's activities interface with many of them. The following in particular are those to which Tadawul makes a direct contribution:

- To raise the private sector's contribution to GDP, from 40% to 65%.
- To increase the Public Investment Fund's assets from SAR 600 Bn to over SAR 7 Tn.
- To rise from our current position of 25 to the top 10 countries on the Global Competitiveness Index.
- To move from our current position as the 19th largest economy in the world to the top 15.
- To increase the SME contribution to the GDP from 20% to 35%.

The Financial Sector Development Program (FSDP) is one of several executive programmes developed to help achieve the objectives of the Vision 2030. The primary goal of the programme is to develop a diversified and effective financial services sector underpinned by the following three pillars:

- Developing an advanced capital market
- Enabling financial institutions to support private sector growth
- Promoting and enabling financial planning

There are several sub-objectives under the first pillar, which align with Tadawul's mandate. One is to facilitate the raising of capital by the government and the private sector. This includes supporting the process of privatization of state-owned entities, which will open up new opportunities for investors. Another is creating an efficient platform to encourage investment and diversify the investor base. Tadawul is contributing to this objective by drawing more foreign investors, increasing the efficiency of trading, and promoting new asset classes. A third objective is to provide a safe and transparent infrastructure, that includes upgrade of the post-trade and risk management model, supported by the establishment of a clearinghouse based on Muqassa principles.

Strategic Plan 2018-2022

Our new plan is multi faceted, encompassing expansion into a wider range of financial instruments and markets. It also envisaged improving market infrastructure and efficiency, strengthening investor protection, and enhancing market information.

The plan has also identified 29 strategic initiatives under the seven strategic pillars. Implementation of a majority of the initiatives commenced within the year. Progress towards strategic goals is carefully measured through a number of corporate KPIs.

Value drivers

Becoming a diversified and integrated exchange

- This includes diversification across asset classes, revenue and product mix, investor base and issuer base. Integration is envisaged across the entire value chain.

Enabling and capitalizing on Saudi growth

- Our strategy envisages that we support the goals of the Kingdom's Vision 2030 by driving capital formation to facilitate the growth of both public and private sectors.

Expanding into becoming a regional listing centre and exchange platform

- We will seek to widen our geographical operations by opening Tadawul's infrastructure and operational capabilities to MENA region.

Strategic pillars

1/ ASSET CLASSES

Expanding asset classes while developing derivatives markets in line with investor needs

2/ ISSUERS

Encouraging more Saudi companies and issuers of other capital instruments to list on Tadawul and extend listing opportunities to the rest of the GCC. In the process, we will help drive Saudi Arabia's privatization and debt listing programme

3/ INVESTORS

Diversify investor base by attracting international and institutional investors

4/ POST-TRADE

Establish a Counterparty Clearing House and enhance post-trade products and services

5/ MARKET INFORMATION AND ANALYTICS

Developing a comprehensive suite of information and analytics services

6/ TECHNOLOGY AND OPERATIONS

Building and operating a regional exchange platform across the value chain

7/ ORGANIZATION ENABLERS

Build an agile, digitized and business-oriented organization while collaborating with local, regional and international stakeholders to implement the strategy

1 Asset classes

> Tadawul provides a market and an exchange where issuing, buying, and selling of securities take place. A security is a tradeable instrument that represents a share of ownership in a listed company or a creditor relationship with a listed company, a government organization, or a financial entity such as a fund.
>
> Tadawul provides a robust infrastructure for market participants to conduct trading operations securely.

Debt Markets

Value traded (SAR Bn)

0.028
2017

1.13
2018

The issuing of corporate debt instruments provides a vehicle for corporates to access long-term capital other than through conventional loan and equity markets. By tapping this market, companies obtain funding for expansion, working capital and capital restructuring. Bonds issued through the debt market can be both conventional and Islamic (Sukuk). A company's creditworthiness is demonstrated by its ability to raise funds on the debt market. Trading of government bonds commenced in April 2018 and there were 57 bonds listed as at end 2018.

New listings in 2018 57 Government debt instruments

Exchange Traded Funds (ETFs)

Value traded (SAR Bn)

1.16
2017

1.21
2018

ETFs are investment funds consisting of a set of shares of listed companies. They are divided into equal units which are traded on the market. ETFs are convenient for the investor as units can be directly bought and sold on the stock market. Information on the basket of securities and the Indicative Net Asset Value is readily available.

Equities (Main)

Value traded (SAR Bn)

836.28
2017

870.87
2018

Equities are securities which represent an ownership interest in a listed company. Equities on the main market are the asset class where the bulk of the trading takes place. Tadawul provides a framework for companies to issue shares to the public for the first time through an IPO and for investors to buy and sell shares they already own through the secondary market.' Expansion of the equity market is a key factor in achieving the Vision 2030 goal of increasing the private sector contribution to the GDP from 40% to 65%. By going public companies gain access to a wide class of investors, either individual or institutional.

New listings in 2018

Equities (NOMU)

Value traded (SAR Bn)

1.81
2017

0.41
2018

Besides the main market, Tadawul launched a parallel market Nomu, for the Small and Medium sector. SMEs are presently underserved by the financial sector. Despite the fact that they account for 22% of Saudi Arabia's GDP, they receive only 2% of bank lending. Expanding SMEs contribution to the economy is one of the goals of Vision 2030. The requirements for an offering and a listing are less stringent than those for the main market.

New listings in 2018

REITs

Value traded (SAR Bn)

27.90
2017

7.13
2018

REITs are a financial instrument that facilitates collective ownership in developed real estate. They were introduced to the Tadawul market in 2016. The listing of REITs was an important step considering the role that real estate plays in the Saudi economy. The introduction of REITs paved the way for institutionalizing the real estate market.

New listings in 2018

2 Issuers

Issuers are the corporates or other entities that issue securities and together with investors and members (brokers) are the main participants in the capital markets. Tadawul has to play a balancing role of attracting issuers while protecting the rights and interests of investors.

Attracting issuers

- Publishing new listing guide
- Reaching over 600 local companies and 20 regional companies to promote listing
- Conducting 13 workshops and events on listing rules, investor relations and advantages of listing for more than 1,000 attendees
- Streamlining the process for submitting files for IPOs

Protecting investor interest

- Publishing Investor Relations (IR) toolkit
- Streamlining regulation and listing through the Transition and Activation of Responsibilities (TAR) project

In the coming year we will encourage more private companies to offer and list their shares in the stock market. We intend to do this with the incentives offering through the Private Sector Incentive Programme. Details of the listing incentives are given below:

Provider	Incentive
SIDF – Saudi Industrial Development Fund	Increased loan limits granted to listed companies
Ministry of Municipal & Rural Affairs	Introduction of a new "premium" classification in bidding for listed companies
General Investment Authority	Facilitated approval process for listed companies to register foreign partners (joint ventures)
Saudi Food & Drug Authority	Fast tracked services at the Authority's Business Support Centre and advisory services including training courses on the electronic systems of the Authority
Ministry of Health	Priority on training programmes for listed companies, for reporting and statistical data and priority for advertisement in the ministry events
Agricultural Development Fund	Increased funding percentage, and increased credit services limits for each customer

Investor relations

Investor Relations (IR) is a prime consideration for listed companies. The role encompasses finance, communication and marketing. A smooth flow of information between a company and its shareholders and other stakeholders is vital if it is to prosper and grow. For investors to have confidence in the Company, it is necessary to be transparent and build trust. The workshops that Tadawul conducted raised awareness on the subject. An IR toolkit was developed to guide companies through an examination of international best practices on the subject.

[https://www.tadawul.com.sa/wps/portal/tadawul/market-participants/issuers/investor-relations]

It is also meant to educate users on the benefits of adopting such practices.

One of the challenges we faced during the year was the lack of readiness among financial companies, issuers and investors for significant changes in the market. We have overcome this by handling all changes as far as possible between Tadawul and the CMA, thereby limiting the burden on market participants. We have also implemented a communication and awareness plan for market participants, to educate them on all changes.

Sustainable Stock Exchanges (SSE)

In December 2018, Tadawul announced its entry into voluntary partnership with the UN Sustainable Stock Exchanges (SSE). Thereby we demonstrated our commitment to promoting sustainable development and transparency in capital markets. The SSE will support Tadawul to engage with market participants, including issuing companies, on sustainability issues. We will also have access to a wide range of experience from other exchanges as well as investors, issuers, regulators and policy makers.

Transition to a Self-Regulating Organization (SRO)

Under the Transition and Activation of Responsibilities project between the CMA and Tadawul, there was a re-drawing of the division of responsibilities between the CMA and the Tadawul. According to the new regulations, the CMA continues to be responsible for the registration and offering including the prospectus. Tadawul has taken over responsibility for the approval of listing and the timing, format and mechanisms of disclosures.

During the year, the following application approvals were granted by Tadawul:

- **12** Listing applications
- **27** Listing applications for government bonds
- **2** Capital increase applications in Nomu
- **21** Capital increase applications in Main Market

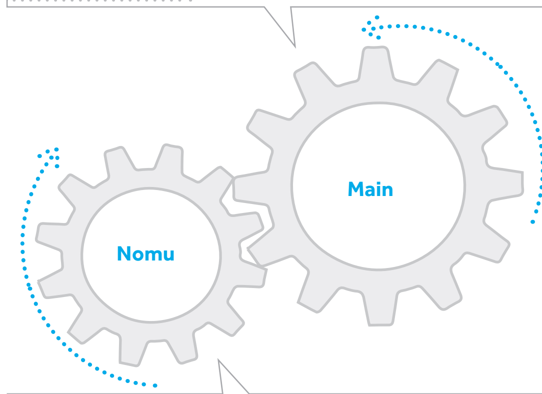
In addition, Tadawul contributed to developing several Exchange Rules, Regulations, and Procedures including Listing Rules amendments; Trading and Membership Rules and Procedures; Security Depository Centre Rules amendments; Orders Aggregation Account Regulations: and Exchange and Centre Procedures amendments. Market Making Regulations and Procedures are under approval.

Revamping Nomu

Enhancing of Nomu, a parallel market, opened the door for issuers with small and medium capital requirements to access the market. While this provided an additional source of funding for issuers to access capital, it also diversified and deepened the capital market.

At the beginning of 2018, non-resident foreigners were permitted to invest directly in Nomu. During the year, the method for determining closing prices was shifted from a Volume Weighted Average Price (VWAP) method to an Auction Price Method for Nomu, as was done for the main market. Nomu is in the process of being further improved in coordination with the CMA. Some of the changes envisaged, which will take effect in 2019, are; allowing direct listings on Nomu without an IPO; issuers reporting earnings on a semi-annual instead of a quarterly basis; and streamlining the process for issuers to transition from the parallel market to the main market.

Main equity market	
	Minimum market capitalization SAR 300 Mn
	Public shareholders at least 200
	Daily fluctuation limits ± 10%
	Percentage offered at least 30%
	Standard disclosure requirements



Nomu parallel equity market	
	Minimum market capitalization SAR 10 Mn
	Public shareholders at least 50
	Daily fluctuation limits ± 20%
	Percentage offered at least 20%
	Lighter financial disclosure requirements

3 Investors

> Investors, both local and foreign, play a crucial role in driving the market. However, investors need to be assured of the liquidity and the transparency of the market to be able to invest with confidence.

MSCI

S&P Dow Jones Indices
A Division of S&P Global

FTSE Russell

Emerging Market Status

Initiatives executed, which contributed to achieving emerging market status:

- Removed cash prefunding requirement
- Relaxed eligibility criteria for foreign investors
- Increased ownership limits for foreign investors
- Introduced securities borrowing and lending + short selling
- Improved settlement cycle for listed securities from T+0 to T+2

Three global stock index providers, MSCI, FTSE Russel, and S&P DJI announced upgrading Tadawul from watch list to emerging market status. The upgrade will become effective in 2019.

In addition to initiatives mentioned on the previous page, fails management controls were also introduced to deal with a situation where shares were not available to complete a sale.

Enhancements were made to the Independent Custody Model (ICM), which permits custodians to hold shares on behalf of investors. The ICM enables custodians to reject the settlement of unconfirmed trades. Securities borrowing and lending was also introduced.

Building confidence

Since 2015, when the market was first opened to foreign investors, conditions relating to them have been modified twice. The following steps were taken to address any concerns of investors or index developers regarding the Saudi market:

- Foreign investors were invited to gain first hand insights into the investment climate for themselves
- The emerging market classification by the index providers was greatly influenced by the perceptions of international investors

- The number of Qualified Foreign Investors (QFIs) grew from about 100 by over 300% over the year, and reached nearly 500
- This was enabled by over 27 road shows and more than 40 meetings were held to attract foreign investors
- Another major success was Goldman Sachs Saudi Arabia and GIB Capital joining Tadawul as members

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4 Post-trade

When the decision was made in 2015 to open the market to foreign investors, it became necessary to reassure investors of the efficiency of trading, and that infrastructure would facilitate smooth trade and post-trade functions.

The infrastructure and process changes made by Tadawul have eliminated the need for prefunding from investors. They have also reduced risk and enabled independent custody services.

Completed and ongoing changes in post-trade

Adopting best practices

- Develop enhancements to the post-trade business model that adopts best international practice
- Adopt Legal and Regulatory changes required for the post-trade enhancements
- Prepare the new post-trade technology platform, that will enable the market expansion to new products and services
- Enhance the market to a standalone financial market with infrastructures for settlement and clearing by introducing Edaa and Muqassa

Structural improvements

- Launching order aggregation framework
- Enhancing settlement efficiency
- Improving Edaa's processes based on ISO 9001 standards
- Enhancing QFI Access to the market through improvements to ICM model
- Optimising e-voting mechanism
- Amending fees for unlisted companies to encourage use of registry services

Process improvements

- Establishing the Quality Management Committee and the Quality Committee Charter
- Modifying fails management fees in line with international investor expectations
- Defining the methodology for Quality Management Function
- Developing key risk indicators for Edaa's operations

There were several initiatives that Tadawul had embarked on, which contributed to upgrading the post-trade function as illustrated on the previous page. In addition, fails management controls were also introduced to deal with a situation where shares were not available to complete a sale.

Enhancements were made to the Independent Custody Model (ICM), which permits custodians to hold shares on behalf of investors. The ICM enables custodians to reject the settlement of unconfirmed trades. Securities borrowing and lending was also introduced.

Muqassa (Central Counterparty Clearing House)

The Securities Clearing Center Company (Muqassa) was established in 2018 as a closed joint stock company fully owned by the Saudi Stock Exchange (Tadawul), with a capital of SAR 600 Mn.

Muqassa's establishment and operation is one of the Financial Sector Development Program 2020 initiatives. In addition, an important component in the future market infrastructure to enhance market efficiency and expansion to new products and services.

Muqassa will contribute to reducing post-trade risks, provide a centralized counterparty risk management, and develop clearing services in accordance with international risk management practices.

For more infromation on Muqassa, visit:
https://www.muqassa.sa

Securities Depository Centre Company (Edaa)

To develop the Saudi capital market in alignment with the Kingdom's Vision 2030, a new strategy was developed for Edaa covering activities that take place in the stock market value chain after a trade takes place.

Looking ahead, Edaa will take a gradual approach to becoming a regional Central Securities Depository (ICSD); this will settle trades in other securities in the region. The possibility of entering into banking services that will leverage assets under custody to provide securities financing and foreign exchange services will be explored. There is also potential to develop investment fund services.

For more infromation on Edaa, visit:
https://www.edaa.com.sa

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5 Market information and analytics

> Transparency and access to accurate and timely information is a must to build the confidence of stakeholders in a stock market. The monthly and annual statistical reports do provide substantial information, especially from an investor perspective. However, there are many other processes and sources of information that play a supporting and supplementary role.

MT30

Joint index with MSCI in 2019

The agreement for creating a joint index with MSCI was concluded during the year 2018, and is expected to contribute greatly in the development of the derivatives market. This index will use index capping to limit the impact individual companies have on the index.

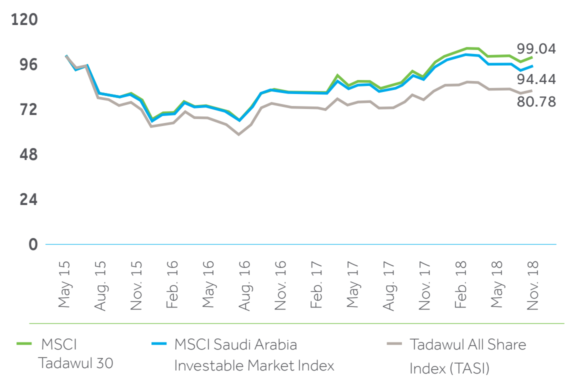
MT30 will provide investors with a useful benchmark against the largest and most liquid stocks in the Saudi market and will be of benefit to the equity market and asset managers.

The MT30 index is based on the MSCI Saudi Arabia Investable Market Index (IMI) which represents the performance of large, medium, and small-cap stocks on the market and covers about 99% of the free-float adjusted market capitalization of the Saudi Market.

The MT30 index takes into account the top 30 securities of the IMI based on free-float market capitalization. The index is subject to capping criteria to limit the impact of single securities. As at 31 December 2018 the largest 10 companies accounted for 73.01% of the total weightage.

Cumulative index performance – SAR price returns

(May 2015 – December 2018)



Migrated to Global Industry Classification Standard (GICS) in 2017

GICS®

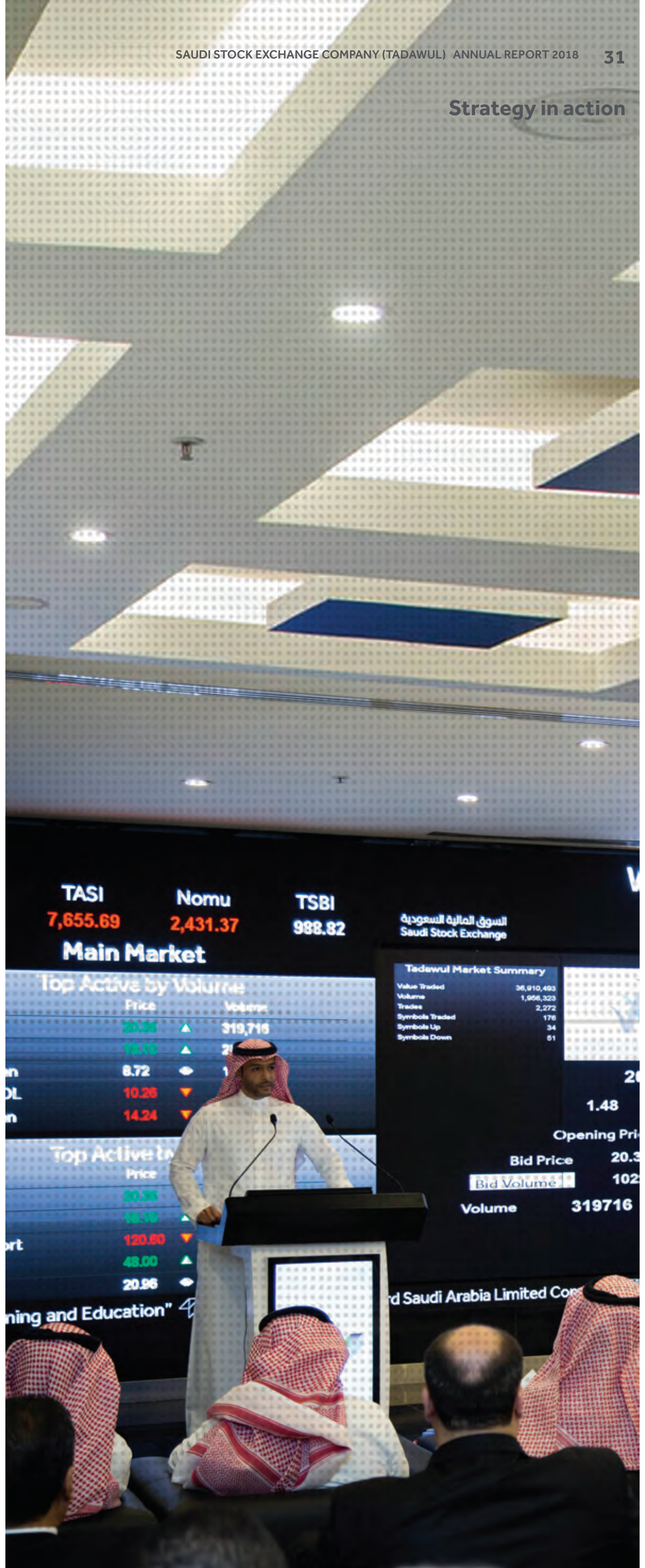
Global standards

Migrating the classification of industries to the Global Industry Classification Standard (GICS), during 2017, helped facilitate comparison of sector performances across markets.

Attracting investors

We also launched eReference Data, a product developed to provide stakeholders with a wide range of information on the Saudi capital markets, such as equities, ETFs, issuers data, market news, corporate announcements, and financial statements. eReference Data is gradually receiving interest from both individual and institutional investors, helping us to move from B2B to a B2C model.

- The number of interactions (calls, email, chat, and social media) increased by 40% from 23,000 to 33,000 while our headcount remained flat
- Despite this increase we achieved an average service level of 96% (measured by answering time)
- Average customer satisfaction recorded 97% while average quality assessment reached 96%
- System improvements enabled migrating classification of industries to GICS, and setting up of a self-service system for certificates depository
- The contact centre has expanded and a dedicated customer service number was assigned for Edaa



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6 Technology and operations

Given the nature of our Organization, information technology is at the core of all our operations. Adopting cutting edge technology and best practices in tandem with an effective IT strategy is paramount. The IT strategy is aligned with our overall corporate strategy and is implemented through policies and practices, which are based on international best practices.

A robust digital strategy

Evolving requirements and technology have made the stock market environment extremely fast paced. This in turn, makes managing the interface between technology and operations arduous. In this respect, the year under review was a very challenging one for Tadawul due to the number of business initiatives and technology changes.

In 2018, all required technology changes for Tadawul's strategic and market development initiatives were successfully delivered and deployed. The market technology capacity was developed by major infrastructure and system upgrades while enhancing performance, resilience and security controls. A high degree of efficiency was maintained in both IT and market operations and international best practices were adhered to.

From a strategic perspective the initiatives successfully executed can broadly be divided into the areas described below:

Preparations for derivatives market

Tadawul is preparing to launch the derivatives market in 2019 for which the groundwork is in progress. This will be a further step towards being recognized as a mature market. Initially it is proposed to launch index futures which will be followed by other derivatives.

The related requirements gathering and project implementation planning have been completed. The derivative infrastructure has also been successfully implemented. Quality assurance and verifying solution readiness are ongoing.

Capacity and performance enhancements of exchange systems

With likelihood of increased trading volumes and potentially large IPOs, major enhancements were made to trading systems' capacity and performance. Business configurations for the new services have been finalized and internal performance testing completed. Website performance has been enhanced by approximately 10 times, number of trades per minute by 15 times, trades at openings and messages over 20 times.

Enabling digital transformation

To achieve digital transformation, multiple workshops were initially conducted to develop requirements and clarify understanding of business needs and challenges. Following this requirements analysis and assessment was carried out to identify and prioritize areas for improvement. Finally a master plan was developed with detailed activities, timelines, deliverables and responsibilities.

The following are some of the indicators that illustrate our contribution quantitatively:

- Major contributions were made to the successful completion of more than 30 business projects and initiatives
- Core system availability recorded 99.88% and non-core system availability recorded 99.98%
- Operations achieved 100% accuracy and efficiency
- Over 40 regulatory changes were implemented with zero deviation off plan

New technology channels enabled the preparation and dissemination of–

- 1,679 reports and financial statistics
- Publication of 524 press releases
- A total of 4,018 corporate announcements were posted

In addition, technology enabled the following operations:

- Processing of 12 new listings
- Management of 15 public and customized indices
- 100% successful changes and releases

A major step in revamping technology

In December 2017, Tadawul and NASDAQ officially signed an agreement to transform Tadawul's post-trade technology infrastructure that includes registry, depository and risk management technologies.

The new post-trade technology will replace Tadawul's current Registry, Depository and Settlement Solution which was implemented in 2001 with a state-of-the-art, flexible and efficient technology. In addition, to introducing a new Central Counterparty Clearing Solution, this transformation will enable both Tadawul and market participants to introduce new asset classes to the market and new services to investors. Further the new technology will increase effectiveness and efficiency and will facilitate further growth of the market. It will also reduce risks in the post-trade area in compliance with international standards and best practices.

The necessary hardware and software procurement for the project has been completed; quality and testing plans have also been developed.

Governance and efficiency

During the year, a number of revisions and enhancements were made to our operations and IT processes which enhanced controls, quality, and alignment with international standards.

In 2018, our ISO 9001:2008 QMS Certification was upgraded to the 2015 standard and a successful surveillance audit conducted. A similar audit was completed for ISO 20000-1:2011 Service Management System. These achievements confirm our commitment to maintain international standards. ISO standards are followed in all operations and development of systems and procedures. An audit management tool was also developed in 2018, to register and track corrective action on quality audit findings and ensure compliance with ISO policy. A group of staff members were trained and awarded professional certifications in ISO 9001 and international ITIL framework. In addition, a number of sessions in information security, risk management and quality assurance were conducted to improve the awareness level. Full automation approval process was implemented for all systems.

All our IT and technology operations and development take place within a structure of IT governance. Policies and procedures for operations and systems development are clearly laid down and periodically revised as necessary. Seamless interfacing with other organizational units was achieved which ensured good governance, compliance, and effectiveness.

7 Organization enablers

Tadawul's objective is first to stand out among its peers in emerging markets and ultimately to rank among the world's leading markets.

Empowering and motivating our people to reach a common goal

To reach its goals, Tadawul requires human resources of the highest calibre, empowered and motivated to fulfil their roles.

Our HR roadmap is aligned with our overarching strategy and implemented through a rigorous system of 17 KPIs covering aspects including manpower costs, promotion rates, and training.

During the year under review, the focus has been on achieving compatibility between the HR strategy and organizational operations:

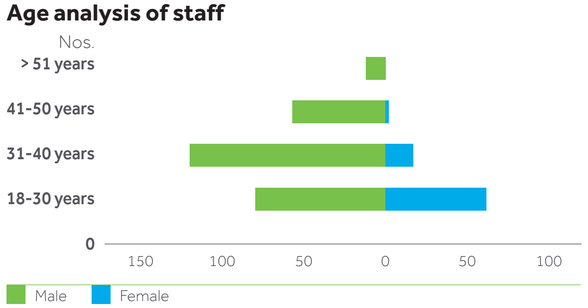
- Managing, building, and sustaining leadership
- Fostering talent, growth, and advancement
- Building a winning culture

We constantly evaluate the competencies of our staff and when gaps are identified we address them by providing training and development.

- **91.3% of our employee cadre are Saudi**
- **40% of employees are youth**
- **23% of our employees are women**
- **Approximately 30% of leadership/decision-making positions held by women**
- **76% of our women are between the ages 18 and 30**
- **18 in-house training programmes conducted across 95 days for over 300 employees**
- **2.6% of total employee hours spent on training**

The age distribution of our staff demonstrates the importance we give to youth with 40% of our employees being below 30 years of age.

Age analysis of staff



An internal event held for the employees

The employee number by company is shown below:

	Tadawul	Edaa	Muqassa	Total
Total Number of employees	287	52	11	350
Number of female employees	73	4	4	81
Number of Saudi employees	269	49	8	326

Communicating the Brand

Organizational restructuring has addressed inefficiencies in the supply chain and promoted operational excellence. For instance, we separated our sales and corporate communication teams to foster greater focus and efficiency, and also established a Marketing Division. Derivatives and Market Information are two recently established divisions that are responsible for the respective business development areas including sales and after sales.

The Marketing Division delivered more than 70 assignments to Tadawul, Edaa, and Muqassa. The number of promotional or educational videos created during the year increased from 12 to 28.

Since the establishment of the Marketing Division, the number of marketing deliverables grew significantly. Social media posts grew by 37% (from about 1,600 to about 2,200 posts) covering awareness, advertising and announcements and number of followers grew YoY by 52% to 250,000 across all social media channels.

These announcements, press releases, posts, and events have created a huge demand by all market participants, which is served by Customer Experience Department within Marketing Division. Number of queries grew by 40% YoY to reach approximately 33,000 contacts with customers by phone, email, live chat, and social media. All queries were answered at a 96% rate as per the KPIs assigned (five seconds to answer call and two hours to respond to a tweet). Customer satisfaction, measured by scoring directly to a system, has levelled to 97%. As part of international marketing efforts, Tadawul has an agreement with NASDAQ to use a board at Madison Square Garden, New York for branding and promotion of Tadawul.

In 2018 website traffic grew positively by 12% while the number of unique visitors grew by 16%. Website visitors grew as a result of inclusion in international indices, and Twitter posts have been effectively used as clickable infographics that link visitors directly to the site.

Tadawul's brand was promoted through several diverse channels including–

Website	Social media – Twitter, Instagram, Facebook, and LinkedIn	Events	Press releases
Web traffic grew by 12% **Unique visitors grew by 16%**	**Posts grew by 37%** **Followers grew YoY by 52%**	**Invest wisely**	**Invest wisely**

Corporate social responsibility

Through our CSR initiatives we are committed to supporting local communities and contributing to the sustainable development of the Kingdom through four focus areas.

In 2018, we completed 94% of planned corporate social responsibility initiatives in the areas of–

Our CSR activities have included more than 15 initiatives directly linked to the core strategy of Tadawul. Activities have covered support to Disabled Children's Association as well as capital market-related entities such as SOCPA, Chartered Institute of Internal Audit – Saudi Chapter and Chartered Finance Institute – Saudi Chapter.

We have also supported Tadawul's internal community through offering English courses to security guards helping them to elevate their skills and abilities. We have also helped conserve the environment by adopting tree-saving campaigns. The initiative was later expanded to include Board of Directors' meetings by adopting a digital solution to replace the paper-based decks and briefing packs.

Additionally, we introduced an educational programme named "Invest Wisely" to improve the financial literacy of those who are new to investment and trading in the market. The programme offers a trading simulator which allows participants to gain practical experience in a mock environment. More than 20 workshops have been conducted at Tadawul premises targeting financial literacy of the participants. Invest Wisely has also delivered two competitions one for the public and the other for university students which have drawn more than 20,000 active users.

To mitigate our impact on the environment, we have introduced a paper and plastic recycling programme and facilitated green practices.

Tadawul has shown its commitment to gender equality in its recruitment policies. 30% of leadership/decision-making positions are held by women. Of the current workforce, 23.1% are women, with the percentage having been much higher at recent recruitments. This ensures that the overall percentage of women will increase in future years.

Tadawul's contribution to economic growth is self-evident, by the fact that its core activity includes raising capital for the private sector. Capital, as one of the main factors of production, is a necessity to ensure future growth and prosperity. The nature of employment it creates is a contribution to decent work.

Contribution to the Sustainable Development Goals

In December 2018, Tadawul joined the United Nations Sustainable Stock Exchanges (SSE) Initiative as a partner exchange. The SSE is a network connecting nearly 80 exchanges globally. Tadawul intends to use its membership of SSE to promote the integration of sustainability considerations within the Saudi Capital Market together with other market participants.

With its commitments under the SSE partnership, Tadawul will promote the following five goals, which are the ones that are most relevant considering its mission.

- Gender equality
- Decent work and economic growth
- Responsible consumption and production
- Climate action
- Partnership to achieve the goals

Investor relations

The investor relations function of Tadawul is two-sided. One is that of facilitating the process of investor relations in issuing companies which has been covered under the Issuers section (pages 24 to 25).

The other aspect is that of Tadawul's own investor relations in preparation for its upcoming IPO. An Investor Relations Department was set up for this purpose in 2018.

> **Working with market participants, Tadawul fosters advocacy for sustainability practices. We encourage listed companies to adopt sustainability practices and incorporate ESG considerations into their reporting. An MoU was signed with King Khalid Foundation to collaborate in offering training in sustainable lending practices as well as to encourage Saudi listed companies to improve sustainability policies and practices.**

Financial review

> We have been successful in keeping the operational cost practically constant compared to 2017, despite the company carrying out critical projects and programmes of a transformational nature. The company is working to implement initiatives that contribute to controlling costs while increasing the growth of operating revenue, a reflection of operational efficiency.

Revenue and profitability

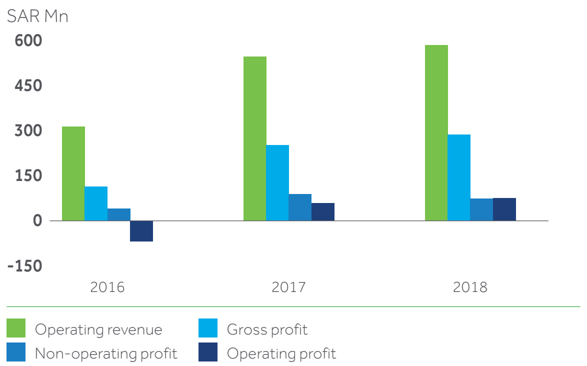
The operating revenue has increased by 6.9% from SAR 545 Mn in 2017 to SAR 583 Mn in 2018. The non-operating profit, which increased by 123% in 2017, declined by 15.8% from SAR 87 Mn to SAR 73 Mn in 2018.

The decline was mainly due to a drop in investment income. As a result, the net profit showed only a marginal increase of 2.0% from SAR 145 Mn to SAR 148 Mn.

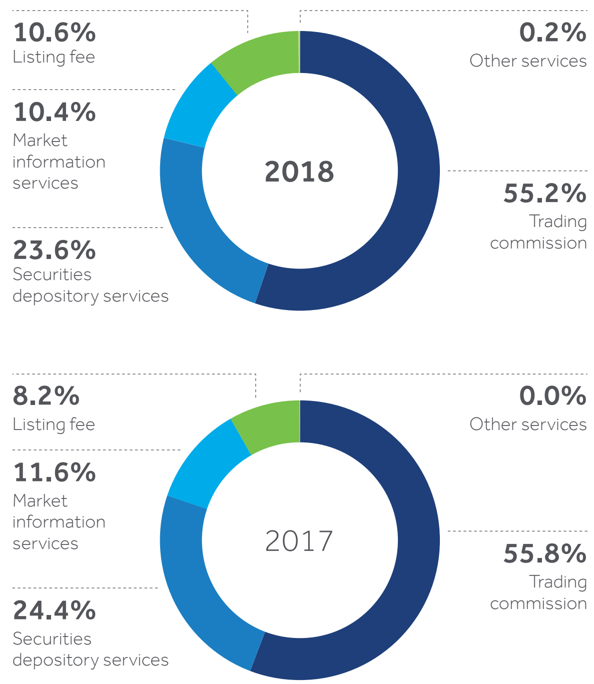
Gross profit increased by 14% from SAR 250 Mn in 2017 to SAR 285 Mn, while operating profit showed a considerable increase of 29.2% from SAR 57 Mn to SAR 74 Mn.

The composition of the operating revenue has shown little change from 2017 to 2018; a slight increase in trading revenue is mainly due to an increase in ADTV (SAR 3.5 Bn in 2018; SAR 3.3 Bn in 2017). For non-trading revenue the increase has mainly been driven by the listing services stream. Listing revenue, which commenced in the 2nd quarter of 2017, has increased by 37% due to it being charged for the full year in 2018.

Revenue and profitability



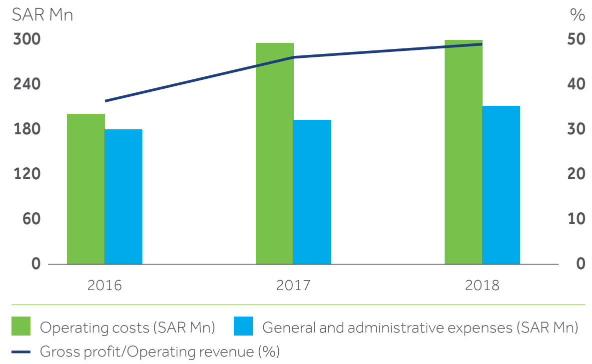
Composition of operating revenue



Expenses

Operating costs increased by only 1% from SAR 295 Mn to SAR 299 Mn from 2017 to 2018. Over the same period, general and administrative expenses increased by 9.3% from SAR 193 Mn in 2017 to SAR 211 Mn in 2018. We have been successful in keeping the operational cost practically constant compared to 2017, despite the Company carrying out critical projects and programmes of a transformational nature. The company is working to implement initiatives that contribute to controlling costs while increasing the growth of operating revenue, a reflection of operational efficiency. This is reflected in the disproportionate increase in gross profit and operating profit relative to operating revenue and also in the increase in gross profit/operating revenue.

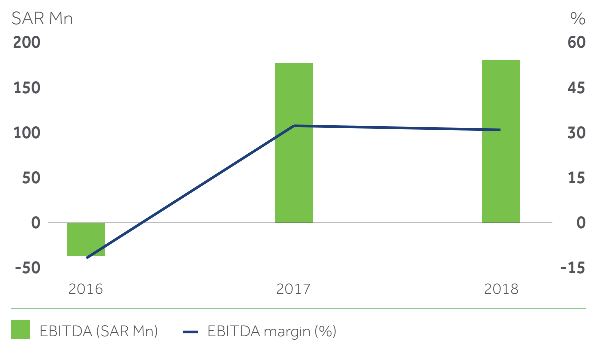
Expenses



EBITDA and EBITDA margin

Earnings before interest, tax, depreciation and amortisation (EBITDA) has shown a declining trend from 2014 to 2016 and an increasing trend thereafter. EBITDA has increased by 2.6%from SAR 176 Mn in 2017 to SAR 180 Mn in 2018. EBITDA margin (EBITDA/operating revenue) has shown a slight decline from 32.2% in 2017 to 30.9% in 2018. This is mainly due to the considerable increase in operating revenue.

EBITDA and EBITDA margin



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Assets and liabilities

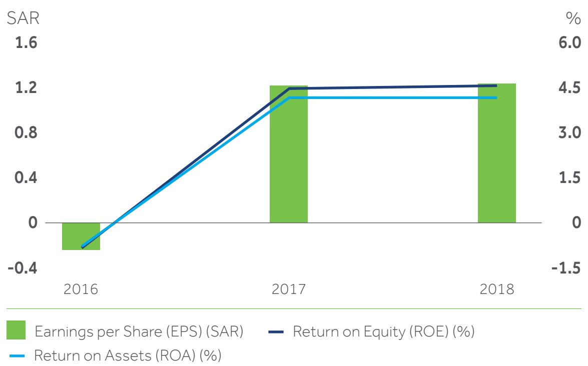
Total assets increased by 4.0% from SAR 3,414 Mn in 2017 to SAR 3,532 Mn in 2018. However, there have been major compensating movements in the composition of non-current assets and current assets. Non-current assets declined by 62.1% to SAR 482 Mn (2017: SAR 1,270 Mn). Current assets increased by 42.3% from SAR 2,144 Mn to SAR 3,050 Mn. This has been largely due to the change in the composition of investments which were reclassified consequent to the adoption of IFRS.

Total non-current liabilities reduced from SAR 109 Mn in 2017 to SAR 89 Mn in 2018, which is a reduction of 18.1%. Total current liabilities increased by 77.1% from SAR 117 Mn to SAR 208 Mn.

Profitability ratios

Total equity increased by 1.5% to SAR 3,235 Mn as at 31 December 2018 (2017: SAR 3,188 Mn). Return on equity remained unchanged at 4.61%. Return on assets marginally declined to 4.20% from 4.26% in 2017. Basic and diluted earnings per share increased marginally from SAR 1.21 to SAR 1.23.

Profitability ratios



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Governance at Tadawul

Compliance with Corporate Governance Guidelines and Regulations

Governance is an important part of the values and practices of the Saudi Stock Exchange (Tadawul), which implements the best corporate governance practices for managing unlisted shareholding companies represented in the Corporate Governance Guidelines for Unlisted Companies issued by the Ministry of Commerce and Investment. In addition, the Company works towards raising the level of transparency and corporate integrity by maintaining the best governance practices based on the following:

1. The Companies' Law
2. Capital Market Law
3. The Company's Articles of Association

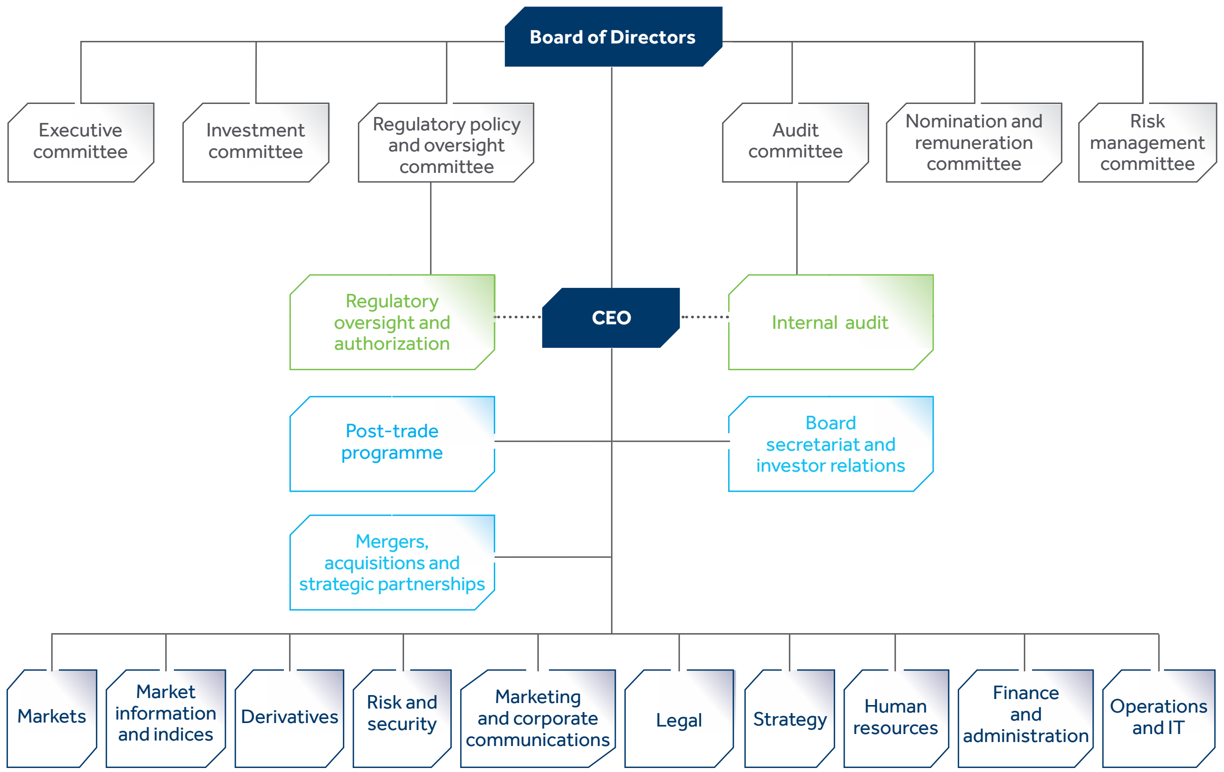
Our governance structure

The organizational structure including some of the Board committees is shown in the diagram below:

Disclosure concerning the composition of the Board of Directors and Senior Executives

The formation of the Board of Directors of the Saudi Stock Exchange Company (Tadawul) is based on the Capital Market Law promulgated by Royal Decree No. (M/30) dated 2/6/1424 H. As Clause (b) of Article 22 states: "The Company shall be managed by a Board of Directors consisting of nine members, who shall be appointed by a resolution of the Council of Ministers upon nomination by the Chairman of Capital Market Authority. Members shall choose from among themselves a Chairman and a Vice-Chairman. Membership shall be as follows:

1. Representative of the Ministry of Finance.
2. Representative of the Ministry of Commerce and Investment.
3. Representative of the Saudi Arabian Monetary Authority.
4. Four members representing the licensed brokerage companies.
5. Two members representing the companies listed on the exchange.



Board of Directors

Ms. Sarah Al-Suhaimi
Chairperson of Board of Directors

Currently the Chief Executive Officer and Board member of AlAhli Capital, the investment arm of NCB. She served for two years as Vice-Chairman of the Advisory Committee of the CMA Board of Directors. Previously, she led the Asset and Wealth Management Division at Jadwa Investment Company, where she was also the Chief Investment Officer and member of the Jadwa Management Committee. Prior to that, she was a member of the asset management team at Samba Asset Management and Investment Management. Sarah received a Bachelor's Degree in Accounting with Honors from King Saud University.

Mr. Abdulrahman Al-Mofadhi
Deputy Chairman of the Board of Directors

Currently the Chairman of the Board of Directors of the National Shipping Carrier of Saudi Arabia (Bahri) of Saudi Arabia and Dar Al Tamleek. Prior to that, he served as Secretary-General in charge of the Public Investment Fund. Abdulrahman obtained a Bachelor's Degree in economics from King Saud University and a Master's Degree in Economics from the University of Michigan.

His Excellency Mr. Suhail Abanmi
Member of the Board of Directors

Currently the Governor of the General Authority of Zakat and Tax. Suhail has 17 years of experience in business development and IT in the banking and financial sectors. He has held various leadership positions at Al Rajhi Bank, Saudi Stock Exchange (Tadawul) and Al Enma Bank. He also serves as a member of Boards of Directors of government bodies and companies.

Suhail holds a Bachelor's Degree in Computer Science from King Saud University, a Master's Degree in Computer Engineering from the University of New South Wales and a Master's Degree in Business Administration from Al-Faisal University.

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Mr. Tariq Al-Sudairy
Member of the Board of Directors

Currently the Managing Director and Chief Executive Officer of Jadwa Investment, a specialized investment management and advisory firm. Tariq's work experience spans the fields of investment management, private equity, investment banking, and management consulting in Saudi Arabia, the GCC, and the United States. He previously served as Head of Private Equity and Investment Banking at Jadwa Investment; Senior Vice President at Amwal AlKhaleej; Manager at McKinsey & Company; and Consultant at Lexecon Inc.

Tariq received his Master's in Business Administration from Harvard University and his Bachelor's Degree in Economics from Williams College.

Mr. Ali Al-Gwaiz
Member of the Board of Directors

Currently the CEO of The Family Office Co. for International Investment. Previously, he served as CEO of Manafea Investment Company, Board member and Executive Director of Riyad Capital. He worked for ten years in the Credit Department of the Saudi Industrial Development Fund. He has worked in the investment banking sector at Samba Financial Group for twelve years and then joined the investment banking sector at Riyadh Bank in 2007, a year before taking office.

Ali received a Bachelor's Degree in Business Administration from the University of Portland, and joined the Manhattan Bank Credit Programme and attended several other specialized training courses.

Mr. Abdulaziz Bin Hassan
Member of the Board of Directors

Currently the Chairman of the Board of Directors of Al Alamiya for Cooperative Insurance Company and a member of the Board of Directors of Al-Faisaliah Group. He previously served as Managing Director and Chief Executive Officer of Credit Suisse Saudi Arabia. Abdulaziz has 27 years of experience in financial markets, investment management, asset management and investment banking. He has served as Chief Executive Officer of Arabian Capital and Rana Investment Company; held membership in the advisory committee at the CMA; and has held various leadership positions at Samba Financial Group and Bank Muscat.

Abdulaziz received a Bachelor's Degree in Law from King Saud University, in addition to attending several training courses at the New York Financial Institute.

Mr. Abdullah bin Nasser Al Dawood
Member of the Board of Directors

Currently the Managing Director and CEO of Seera Group Holding Company since 2015 and Chairman of the Development and Investment Entertainment Company, which has been fully controlled by the Public Investment Fund since the beginning of 2018. He is also the Managing Director of AlRaedah Finance since 2014, as well as a member of the Board of Directors of Rua Al Madina and the Board of Directors of Kareem. He is also a Board member of Almosafer Company.

Abdullah was previously Vice-President of Banking and Investment at Deutsche Bank for the Middle East and North Africa between 2007 and 2014.

Abdullah received a Master's Degree in Political Science and international relations from Georgetown University in the United States in 2007 and a Master's Degree in business administration from the same university in 2006, in addition to a Bachelor's Degree in Business Administration from King Saud University in 2002.

Mr. Hashem Alhekail
Member of the Board of Directors

Currently the Deputy Governor for Financial Sector Development at Saudi Arabian Monetary Agency (SAMA). He has also co-founded Derayah Finance and has served as co-CEO and is responsible for operations and technology. He has 30 years of experience in IT and operations. He started his career in 1983 as an Auditor at SAMA . He then moved to NCB, overseeing systems development projects as well as supporting and maintaining existing systems.

Hashem received a Bachelor's Degree in social work from King Saud University in 1981, and a Professional Diploma in Financial Supervision from the Institute of Public Administration in 1983. He has also participated in technical and management training programmes at various institutions, including Harvard University and the Massachusetts Institute of Technology.

Mr. Rayan Fayez
Member of the Board of Directors

Currently the Managing Director and Chief Executive Officer of Banque Saudi Fransi, Board member of Saudi Agricultural and Livestock Investment Company (SALIC), Hassana Investment Company and previously served as CEO of Savola Group and Managing Director and General Manager of Operations at J.P Morgan in Saudi Arabia. During Rayan's investment banking experience he held several senior positions at J.P Morgan and Goldman Sachs in London, New York and Saudi Arabia.

Rayan received a Bachelor's Degree in Mechanical Engineering from the Massachusetts Institute of Technology (MIT) in the United States of America.

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The Council of Ministers Decision No. 273 dated 9/5/1438 H corresponding to 06/02/2017 re-formed the Board of Directors of the Company for a period of three years. The members of the Board are as follows:

No.	Director	Category	Representative of	Position held in other companies as of 31 December 2019
1	Ms. Sarah Al-Suhaimi	Chairperson of the Board (Non-Executive)	Licensed Brokerage firms	AlAhli Capital – Chief Executive Officer and Board Member.
2.	Mr. Abdulrahman Al-Mofadhi	Deputy Chairman (Non-Executive)	Ministry of Finance	• National Shipping Carrier of Saudi Arabia (Bahri) – Chairman of the Board. • Dar Al Tamleek – Chairman of the Board
3.	His Excellency Mr. Suhail Abanmi	Non-Executive	Ministry of Commerce and Investment	
4.	Mr. Abdulaziz Bin Hassan	Non-Executive	Companies listed on the Saudi Stock Exchange	• Al Alamiya for Cooperative Insurance Company – Chairman of the Board • Al-Faisaliah Group – Member of the Board of Directors
5.	Mr. Ali Al-Gwaiz	Non-Executive	Licensed Brokerage firms	• The Family Office Co. for International Investment – Chief Executive Officer. • Middle East Healthcare Company – Member of the Board of Directors
6.	Mr. Tariq Al-Sudairy	Non-Executive	Licensed Brokerage firms	• Jadwa Investment Company – Managing Director and Chief Executive Officer. • Abdul Mohsen Al-Hokair Group for Tourism and Development – Member of the Board of Directors • Saudi Aramco Base Oil Company (Luberef) – Member of the Board of Directors • AlRajhi Alpha Investments – Member of the Board of Directors .
7.	Mr. Rayan Fayez	Non-Executive	Companies listed on the Saudi Stock Exchange	• Banque Saudi Fransi – Managing Director and Chief Executive Officer. • Saudi Fransi Capital – Member of the Board of Directors. • Saudi Agricultural and Livestock Investment Company (SALIC) – Member of the Board of Directors. • Hassana Investment Company

No.	Director	Category	Representative of	Positions held in other companies
8.	Mr. Abdullah bin Nasser Al Dawood*	Non-Executive	Companies listed on the Saudi Stock Exchange	• Seera Group Holding Company – Chief Executive Officer. • AlRaedah Finance – Member of the Board of Directors. • Vision City – Member of the Board of Directors. • Development and Investment Entertainment Company – Chairman of the Board. • Al-Musafer Travel and Tourism Company – Chairman of the Board
9.	Mr. Hashem Alhekail*	Non-Executive	Saudi Arabian Monetary Agency	
10.	Mr. Abdulaziz Bin Saleh Al Furaih**	Non-Executive	Saudi Arabian Monetary Agency	
11.	Dr. Khaled Bin Hussein Al Biyari**	Non-Executive	Companies listed on the Saudi Stock Exchange	

* *Appointed pursuant to the Council of Ministers' Resolution No. (627) dated 24/12/1439H corresponding to 04/09/2018, complementing the three-year period stipulated in the Council of Ministers' Decision No. (273) dated 06/10/1439H corresponding to 06/02/2017*

** *Their membership expired on 24/12/1439H corresponding to 04/09/2018*

Attendance at Board meetings

Name of member	Position	First meeting 04.03.2018	Second meeting 15.05.2018	Third meeting 05.08.2018	Fourth meeting 28.10.2018	Fifth meeting 26.12.2018
Ms. Sarah Al-Suhaimi	Chairman of the Board	✓	✓	✓	✓	✓
Dr. Abdulrahman Al-Mofadhi	Deputy Chairman	Excused	✓	✓	✓	✓
His Excellency Mr. Suhail Abanmi	Member	✓	✓	Excused	✓	✓
Mr. Tariq Al-Sudairy	Member	✓	✓	✓	✓	✓
Mr. Ali Al-Gwaiz	Member	✓	✓	✓	✓	✓
Mr. Abdulaziz Bin Hassan	Member	✓	✓	✓	✓	✓
Mr. Rayan Fayez	Member	✓	✓	✓	✓	✓
Mr. Hashem Alhekail	Member	Not a member	Not a member	Not a member	✓	✓
Mr. Abdullah bin Nasser Al Dawood	Member	Not a member	Not a member	Not a member	✓	✓
Mr. Abdulaziz Bin Saleh Al Furaih	Member	✓	✓	✓	Term Expired	Term Expired
Dr. Khaled Bin Hussein Al Biyari	Member	Excused	✓	✓	Term Expired	Term Expired

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Directors' remuneration (SAR)

- In accordance with the Articles of Association of the Company, a percentage not exceeding 0.5% of the remaining profits (after statutory deductions) shall be determined by the General Assembly to be provided as compensation to the Directors. The members of the Board of Directors shall receive an annual remuneration of SAR 200,000 for their membership in the committees emanating from the Board membership. In addition, they receive SAR 3,000 for each committee meeting they attend.
- A member of the Board of Directors who is a member in the Regulatory Oversight and Policy Committee shall be granted an additional amount of SAR 200,000 considering the nature of the work and responsibilities of the Committee.

This is in line with the Company's commitment to the provisions of Article (76) of the Companies Law, which regulates the remuneration of the members of the Board of Directors.

The following table shows the total remuneration of Directors for the year 2018:

Name of member	For attending committee meetings SAR	Annual membership bonus SAR	The bonus out of the profits of 2018 SAR	Total SAR
Ms. Sarah Al-Suhaimi	18,000	200,000	40,760	258,760
Mr. Abdulrahman Al-Mofadhi	9,000	200,000	40,760	249,760
Mr. Ali Al-Gwaiz	21,000	200,000	40,760	261,760
Mr. Tariq Al-Sudairy	21,000	200,000	40,760	261,760
His Excellency Mr. Suhail Abanmi	15,000	200,000	40,760	255,760
Mr. Abdulaziz Bin Hassan	45,000	375,000	40,760	460,760
Mr. Rayan Fayez	15,000	200,000	40,760	255,760
Mr. Hashem Alhekail	9,000	57,777	13,289	80,066
Mr. Abdullah bin Nasser Al Dawood	6,000	57,777	13,289	77,066
Dr. Khaled Bin Hussain Al Biyari	12,000	135,000	27,471	174,471
Mr. Abdulaziz Bin Saleh Al Furaih	18,000	135,000	27,471	180,471
Total	189,000	1,960,554	366,840	2,516,394

Rewards and benefits of Senior Executives (SAR)*

Statement	Total amount
Salaries and allowances	9,192,951.44
Annual and other bonuses	6,360,000.00
Total	15,552,951.44

**Executives' emoluments represent the top five executives, including the CEO and the CFO.*

Committees of the Board of Directors

The Board of Directors has six committees composed of members of the Board and others with the necessary expertise and specialist knowledge relevant to the function of each committee. Each of these committees shall have approved rules defining their powers and working procedures.

Executive Committee

The Executive Committee is responsible for studying the Company's business plan and projects, managing its strategies and following up on its implementation. In addition, it makes recommendations to the Board on adopting the policies of the Company and on entering into investment projects or acquisition of companies related to its work or the development of its current activities in line with its strategic plan. The Committee's responsibilities also include the Board's recommendation for the annual budget. The Committee consists of five members –

Name of member	Position	First meeting 28.01.2018	Second meeting 19.02.2018	Third meeting 11.12.2018
Ms. Sarah Al-Suhaimi	Committee President	✓	✓	✓
Mr. Tariq Al-Sudairy	Member	✓	✓	✓
Mr. Rayan Fayez	Member	✓	✓	Excused
Mr. Hashem Alhekail	Member	Not a member	Not a member	✓
Mr. Abdullah Bin Nasser Al Dawood	Member	Not a member	Not a member	✓
Mr. Abdulaziz Bin Saleh Al Furaih	Member	✓	✓	Term expired
Dr. Khaled Bin Hussein Al Biyari	Member	✓	✓	Term expired

Audit Committee

The Audit Committee supervises the business of the Company and verifies the integrity and accuracy of Financial Statements, reports and internal control systems. It also approves the annual Internal Audit Plan and reviews financial and accounting policies. The Committee appoints a Director-General for internal audit and recommends to the General Assembly the appointment of the External Auditor, follows-up on its work, and examines the Financial Statements and reports submitted by the Auditor. The tasks of the Committee include reviewing the directives of the regulatory bodies and ensuring that the Company takes the necessary measures.

The Committee consists of five members:

Name of member	Position	First meeting 07.01.2018	Second meeting 27.03.2018	Third meeting 22.05.2018	Fourth meeting 16.07.2018	Fifth meeting 17.10.2018	Sixth meeting 19.11.2018
His Excellency Mr. Suhail Abanmi	Committee Chairman	✓	✓	✓	Excused	✓	✓
Dr. Abdulrahman Bin Ibrahim AlHumaid	Independent member	✓	✓	✓	✓	✓	✓
Mr. Abdullah Bin Abdulrahman AlShwer	Independent member	✓	✓	✓	✓	Excused	✓
Mr. Abdul Rahman Mohammed AlOdan	Independent member	✓	✓	✓	✓	✓	✓
Mr. Hashem Alhekail	Member	Not a member	Not a member	Not a member	Not a member	✓	✓
Mr. Abdulaziz Bin Saleh Al Furaih	Former Chairman of the Committee	✓	✓	✓	✓	Term expired	Term expired

Risk Management Committee

The Committee is responsible for Risk Management and information security, including recommending to the Board the adoption of policies for Risk Management in the Company, and giving consideration to the General Risk Management function's recommendations on business risk analysis, including risks relating to services and products provided by the Company and capital investment. The Committee will also study the risks of information technology systems and ensure the adequacy of the security of such systems to conduct business, manage the mechanisms of dealing with listed securities including deposit, registry, settlement, and publishing related information. In addition, the Committee studies the Business Continuity Plan and analyzes its impact on the Company's business.

The Committee consists of five members:

Name of member	Position	First meeting 01.04.2018	Second meeting 19.04.2018	Third meeting 02.08.2018	Fourth meeting 09.12.2018
Mr. Abdulaziz Bin Hassan	Chairman of the Committee	Not a member	Not a member	Not a member	✓
Mr. Abdullah Bin Nasser Al Dawood	Member	Not a member	Not a member	Not a member	✓
Dr. Yahya Bin Ali AlJabr	Independent member	✓	✓	✓	✓
Dr. Ibrahim Bin Abdul Rahman AlKadi	Independent member	✓	✓	✓	✓
Mr. Jaser Bin Abdulkareem AlJaser	Independent member	✓	✓	✓	✓
Mr. Ali Al-Gwaiz	Former Chairman of the Committee	✓	✓	✓	Term expired
Mr. Rayan Fayez	Member	✓	✓	✓	Term expired

Investment Committee

The Committee supervises the Management of the Company's capital investments, reviews the approved investment policy, ensures its adequacy and follows up on any corrective actions. In addition, it considers the investment strategy and studies and evaluates investment proposals submitted by the Department, and takes decisions thereon. The Committee also appoints investment managers, monitors their performance, determines their fees and completion of their duties.

The Committee consists of four members:

Name of member	Position	First meeting 26.02.2018	Second meeting 29.04.2018	Third meeting 08.08.2018	Fourth meeting 26.11.2018
Mr. Tariq Al-Sudairy	Committee Chairman	✓	✓	✓	✓
Mr. Abdulrahman Al- Mofadhi	Member	✓	Excused	✓	✓
Mr. Ali Al-Gwaiz	Member	Not a member	Not a member	Not a member	✓
Mr. Abdulaziz Bin Hassan	Member	✓	✓	✓	Term expired

Nomination and Remuneration Committee

The Committee undertakes the tasks related to the human capital of the Company and monitors the human resources strategy and related policies. The Committee should establish and evaluate performance criteria for the Executive Director and ensure that there is a long-term succession plan for the Executive Director and Executive Management and oversee implementation. The Committee also considers the organizational structure of the Company and evaluates the competencies and qualifications of executive management and development.

The Committee is also responsible for considering the performance of the Board and its members and recommending the appointment of independent members of the committees emanating from the Board.

The Committee consists of four members:

Name of member	Position	First meeting 19.02.2018	Second meeting 05.08.2018	Third meeting 11.12.2018
Ms. Sarah Al- Suhaimi	Committee Chairman	✓	✓	✓
Mr. Ali Al-Gwaiz	Member	✓	✓	✓
Mr. Rayan Fayez	Member	Not a member	Not a member	Excused
Mr. Bandar Bin Abdul Rahman Bin Muqrin	Member	✓	✓	✓
Dr. Khaled Bin Hussein Al Biyari	Member	✓	✓	Term Expired

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Regulatory Policy and Oversight Committee

The Committee oversees the functions of the Regulatory Oversight and Authorization Division which is the executive arm having direct responsibility for regulatory and supervisory activities. The Committee's tasks are consistent with the Transition and Activation of Responsibilities (TAR) Programme which aims at implementing the regulatory and supervisory powers and functions of trading. These functions are carried out in accordance with the provisions of the Capital Market Law, which includes several aspects such as listing securities in the market. Based on the TAR Programme outputs, the CMA continues to regulate the offering of securities while trading, the listing of securities and details regarding the timing and format of disclosure mechanisms are handled by Tadawul.

Among the tasks of the Committee is to study the draft regulations and rules of the market and amendments to same, and to supervise the communication and coordination between Tadawul and the Capital Market Authority in matters relating to market regulations. Its responsibilities include studying the Management's recommendations regarding listing applications, suspending and cancelling them, approving the listing decisions in the main market, the parallel market (Nomu) and the debt markets, supervising listing applications and requests to move from the parallel market to the main market. It also approves the issued capital and applications for increasing the capital of the listed companies.

The Committee consists of five members:

Name of member	Position	First meeting 10.01.2018	Second meeting 07.03.2018	Third meeting 19.03.2018	Fourth meeting 18.04.2018	Fifth meeting 23.04.2018	Sixth meeting 30.04.2018	Seventh meeting 07.05.2018	Eighth meeting 14.05.2018	Ninth meeting 04.06.2018	Tenth meeting 12.08.2018	Eleventh meeting 20.09.2018	Twelfth meeting 09.10.2018	Thirteenth meeting 19.11.2018	Fourteenth meeting 31.12.2018
Dr. Abdullah Bin Hassan Al Abdulqader	Chairman of the Committee – Independent	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Dr. Abdulrahman Bin Abdul Mohsen Al Khalaf	Independent member	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Abdulaziz Bin Hassan	Member	✓	Excused	✓	✓	✓	✓	✓	✓	✓	Excused	Excused	✓	✓	✓
Dr. Najim Bin Abdullah AlZaid	Member	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Eng. Khalid Bin Abdullah Al Hassan	Executive member	✓	✓	✓	✓	✓	✓	✓	✓	✓	Excused	✓	✓	✓	✓

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Dividend policy

The Company's policy for distribution of annual net income is based on the provisions of its Articles of Association and the availability of liquidity to meet liabilities and strategic projects. Annual net profits (after deduction of all overheads and expenses) shall be distributed as follows:

1. 10% of net profits are allocated to the statutory reserve. The Ordinary General Assembly may suspend this allocation once this reserve equals half the Company's paid-up capital.
2. The Ordinary General Assembly – at the Board of Directors' recommendation – may allocate a percentage of net profits for other special reserves.
3. Of the remainder, a first payment equaling 5% of paid-up capital is allocated to the shareholders.
4. After these allocations, a percentage of the remainder (to be determined by the Ordinary General Assembly, provided that such percentage does not exceed 0.5% of the net profit) is allocated as a bonus for the Board of Directors. The remainder will be distributed to the shareholders as an additional dividend or transferred to retained earnings.

The following are the proposed dividends for the year 2018, compared to dividends for 2017:

Dividend	2018 SAR	2017 SAR
Net profit/loss for the year	148,186,665	129,768,328
Allocating 10% of net profit as a statutory reserve	(14,818,667)	(12,976,833)
Dividends (5% of capital)	(60,000,000)	(60,000,000)
Proposed member remuneration (0.5% of capital)	(366,840)	(283,957)
Dividends (additional share)	(60,000,000)	(60,000,000)
Remainder	13,001,158	–

Affiliates for trading

Name of subsidiary	Capital SAR	Ownership percentage of the Company	Activity	The main country of operations	State of incorporation
Securities Depository Centre Company (Edaa)	400,000,000	100%	Maintaining, registering and recording the ownership of securities	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia
Central Counterparty Clearing House (Muqassa)	600,000,000	100%	Securities clearing	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia

Related party transactions

The Company has entered into transactions with entities related to the Public Investment Fund (the Public Shareholding Fund), as well as certain companies in which some members of the Board of Directors hold directorships. The terms of such transactions are similar to those with ordinary commercial debtors and creditors, and there is no preference or special treatment for the parties involved. The following are the significant transactions and amounts up to 31 December 2018:

Dealing with related parties	2018 SAR Mn	2017 SAR Mn
Trading commission	321,711,062	304,287,195
Market information services	60,808,776	63,027,657
Depository services	137,834,096	132,931,412
Listing services	61,580,174	44,959,233
Other services	1,345,932	244,053
Subsidiaries	5,511,881	4,293,218
Board of Directors' remuneration and allowances	5,963,239	6,429,875
Balance due from Tadawul Real Estate Company	130,000,000	130,000,000

The balances resulting from these transactions are included in the Financial Statements as at 31 December 2018 (in Saudi Ariabian Riyals):

Description	Nature of the relationship	Balance at the beginning of the year	Increases during the year	Proceeds/Paid during the year	Balance at the end of the year
Receivables	Joint ownership and managers	4,416,769	374,001,194	(365,735,796)	12,682,167
Accounts payable	Joint ownership and managers	5,969,836	18,542,801	(17,558,756)	6,953,881
Advances and other assets	Associate company	184,386	184,793	(184,386)	184,793

It should be noted that the Company in its dealings with related parties take into account the procedures used to deal with cases of conflict of interest in accordance with the relevant regulations, in addition to the rules of professional conduct for the members of the Board of Directors of the Company and approved by the Commission's decision No. 02-20-2010 dated 27/08/1431H corresponding to 08/08/2010.

Loans

The Saudi Stock Exchange (Tadawul) has no loans.

Company declarations

The Company's Management declares the following:

- The accounting records have been prepared correctly.
- The internal control system is well-established and effectively implemented.
- There are no substantive doubts about the Company's ability to continue its operations.

There are also no deviations from the accounting standards issued by the Saudi Organization for Certified Public Accountants. There are no material comments from the Auditors on the Company's Financial Statements for the fiscal year 2018.

Regulatory payments due

Statement	SAR Mn	Description
Distributed profits	120.0	What is paid or charged to the period as dividends to government entities (Public Investment Fund)
Social insurance contributions	19.0	What is paid or charged to the period, in accordance with the provisions of the Labour Law in the Kingdom of Saudi Arabia
Deduction tax	2.8	What is paid or charged to the period, in accordance with the provisions of the Zakat and Income Tax Authority
Total	141.8	Represents statutory amounts payable and paid to government entities.

Sanctions or penalties from regulatory or governmental bodies

There are no penalties or sanctions from regulatory or government agencies.

Results of the annual review of the effectiveness of the internal control system

The Internal Audit Department reports periodically to the Audit Committee on the results of the audits, which are designed to verify the effectiveness of the internal control system in protecting the Company's assets, assessing the business risks and measuring the efficiency and performance of all aspects (operational, administrative and financial). The External Auditor performs an evaluation of this system as part of the audit of the Company's final Financial Statements, which includes the ability to review all the internal audit records and reports for the financial period.

Risk management policy and control

The Risk and Security Division of Saudi Stock Exchange (Tadawul) follows the "Three Lines of Defence" methodology, which is in accordance with international standards. It also helps to define the responsibilities of each of the Company's Divisions, Executive Management and the Board Committees of the Council in a precise and effective manner with regard to risks. The important roles of Management are to approve and develop the standards and requirements of information security and business continuity for all Exchange members and data providers or vendors, in line with the ongoing changes within and relating to the market. This includes risk awareness, security and business continuity in line with market changes and the Company's vision.

The following types of risks are defined and approved by Tadawul:

Type 1: Operational risk
These risks arise due to poor efficiency or failure of internal and external processes, individuals, systems, or external events. These include risks due to issuances, clearing companies' transactions, market transactions, asset and deposit transactions, market regulation, HR and material assets. The Risk and Security Division reviews all operational risk sources in collaboration with the concerned Departments with a view to develop suitable policies to minimize these risks.

Type 2: Technical risks
These are the risks associated with IT resulting from the possibility of a defect in information systems, technical structure errors, or communications. IT risk management is concerned with understanding the ongoing operations and processes, identifying the potential risks, and assessing the possible impact of any failures to processes or the information to be derived from them. Prevention and damage mitigation strategies have to take into account human factors, especially the possibility of intentional damage, in addition to accidental damage. Such strategies include reducing the Company's responsibility for any risks, avoiding them, mitigating their adverse effects, or accommodating their consequences wholly or partially.

Type 3: Regulatory risks
These are the risks arising from improper decisions by the Company's Management, erroneous regulatory decisions, improper implementation of regulatory decisions or lack of timely decision-making, which may result in direct loss or loss of alternative opportunities. These risks may arise out of the Company violating laws and standards established by the regulatory authorities; they may be also due to the lack of a suitable strategy to achieve short-term and long-term goals.

Type 4: Financial risks
Financial risks are current or future risks that may affect the Company's revenues or reduce the efficiency of operating expenses. An example is the variable nature of trading commission which constitutes a large percentage of revenue. Other risks include variability in interest rates, exchange rates and the market value of stocks that may affect the return on investment. These are in addition to the liquidity, investment, insurance and financial analysis risks. A key risk mitigation strategy is to increase income not related to trading, in order to mitigate the risks arising from market variations. Also within the ambit of financial risks are procurement and support services risks for which an approved strategy has been put in place to reduce the potential impact.

Type 5: Information security risks
These are risks arising from technical shortcomings and threats to information assets used by the Company that affect the achievement of business objectives. Such risks include internal threats and external threats to information security, threats to privacy, confidentiality and integrity of data, and risks to availability of information. The Risk and Security Division defines the level of data classification in order to ascertain the tools, processes and controls required to grant access to it. The Division also evaluates the ability of the Company to protect classified data considering the threat posed by any unauthorized disclosure or access.

Type 6: Business continuity risk:
This is the risk that the Company's operations are affected by catastrophic and disruptive events, resulting in significant losses in the technical structure and level of services provided. These include risks due to infrastructure breakdowns, natural disasters, logistic support providers, and threats to personnel.

The Risk and Security Division determines the requirements for restoring the services after major disruptive events and ensures the Company's ability to maintain the services provided to retain the credibility of the Exchange with the market and investors. The Division also works to establish controls and plans to reduce the risk of disruption of the system or public facilities to ensure the continuity of business commensurate with the requirements of raising the efficiency of the market.

Type 7: External risks
These are the potential risks or losses resulting from a number of external factors that constitute the external environment and affect the performance and business of the Company such as economic, political and environmental conditions, which create risks to market members, legal risks, risks to data providers and the risks to vendors and suppliers.

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Independent auditors' report

KPMG

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Licence No. 46/11/323 issued 11/3/1992

TO THE SHAREHOLDERS OF SAUDI STOCK EXCHANGE COMPANY

Opinion

We have audited the consolidated financial statements of Saudi Stock Exchange Company ("Tadawul") ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

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

Responsibilities of Management and those Charged with Governance for the Consolidated Financial Statements

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

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

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

KPMG

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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 of Saudi Stock Exchange Company ("Tadawul").

For KPMG Al Fozan & Partners
Certified Public Accountants

Khalil Ibrahim Al Sedais
License No: 371

Al Riyadh on: 4 Ramadan 1440H
Corresponding to: 9 May 2019

Consolidated statement of financial position

As at 31 December 2018
(Saudi Arabian Riyals)

	Notes	31 December 2018	31 December 2017 (Restated)	1 January 2017 (Restated)
ASSETS				
Non-current assets				
Property and equipment	5	18,321,065	26,137,061	32,391,225
Intangible assets	6	114,622,164	81,184,289	83,765,860
Equity - accounted investee	7	42,607,073	49,236,157	51,645,966
Investments	8	306,327,691	1,113,741,772	1,452,624,267
Total non-current assets		**481,877,993**	**1,270,299,279**	**1,620,427,318**
Current assets				
Investments	8	2,616,337,849	1,479,115,490	1,591,008,539
Account receivables	9	38,594,342	26,916,210	9,720,714
Prepaid expenses and other current assets	10	31,959,881	24,939,387	26,214,054
Cash and cash equivalents	11	363,178,918	613,057,827	109,398,138
Total current assets		**3,050,070,990**	**2,144,028,914**	**1,736,341,445**
TOTAL ASSETS		**3,531,948,983**	**3,414,328,193**	**3,356,768,763**
EQUITY AND LIABILITIES				
Equity				
Share capital	1	1,200,000,000	1,200,000,000	1,200,000,000
Statutory reserve	12	311,582,367	296,763,700	283,786,867
General reserve	13	1,114,180,214	1,114,180,214	1,114,180,214
Fair value reserve		–	9,360,408	(3,156,708)
Retained earnings		608,896,618	567,428,470	527,312,309
TOTAL EQUITY		**3,234,659,199**	**3,187,732,792**	**3,122,122,682**
Non-current liabilities				
Employees' end-of-service benefits	14	72,059,827	91,824,969	95,031,112
Provision for specific obligations	15	17,430,875	17,430,875	17,430,875
Total non-current liabilities		**89,490,702**	**109,255,844**	**112,461,987**
Current liabilities				
Account payables	16	87,268,042	51,116,941	60,730,640
Balance due to Capital Market Authority		56,661,001	11,881,482	16,258,958
Deferred revenue		4,733,107	5,829,797	2,649,570
Accrued expenses and other current liabilities	17	59,136,932	48,511,337	42,544,926
Total current liabilities		**207,799,082**	**117,339,557**	**122,184,094**
TOTAL LIABILITIES		**297,289,784**	**226,595,401**	**234,646,081**
TOTAL EQUITY AND LIABILITIES		**3,531,948,983**	**3,414,328,193**	**3,356,768,763**

The accompanying Notes from (1) through (30) form an integral part of these consolidated financial statements.

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2018
(Saudi Arabian Riyals)

For the year ended 31 December	Notes	2018	2017 (Restated)
Operating revenue	18	583,280,040	545,449,550
Operating costs	19	(298,503,938)	(295,466,902)
Gross profit		**284,776,102**	**249,982,648**
General and administrative expenses	20	(210,520,277)	(192,528,380)
Operating profit		**74,255,825**	**57,454,268**
Investment income	21	79,211,522	87,188,113
Share of net loss in an equity-accounted investee	7	(6,629,084)	(2,409,809)
Other income		1,348,402	3,070,137
Non-operating profit		**73,930,840**	**87,848,441**
Profit for the year		**148,186,665**	**145,302,709**
Other comprehensive income			
Items that will not be reclassified to the consolidated statement of profit or loss			
Remeasurement of defined benefit liability	14	20,302,501	(2,209,715)
Items that can be reclassified to the consolidated statement of profit or loss			
Net change in fair value on available-for-sale equity investments		–	12,517,116
Other comprehensive income for the year		**20,302,501**	**12,517,116**
Total comprehensive income for the year		**168,489,166**	**155,610,110**
Basic and diluted earnings per share	**22**	**1.23**	**1.21**

The accompanying Notes from (1) through (30) form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2018
(Saudi Arabian Riyals)

	Notes	Share capital	Statutory reserve	General reserve	Fair value reserve	Retained earnings	Total equity
Balance as at 1 January 2018		**1,200,000,000**	**296,763,700**	**1,114,180,214**	**9,360,408**	**567,428,470**	**3,187,732,792**
Effect on the adoption of IFRS 9 at 1 January 2018	3.1.1	–	–	–	(9,360,408)	7,797,649	(1,562,759)
Restated balance at 1 January 2018		1,200,000,000	296,763,700	1,114,180,214	–	575,226,119	3,186,170,033
Total comprehensive income for the year:							
Profit for the year		–	–	–	–	148,186,665	148,186,665
Other comprehensive income for the year		–	–	–	–	20,302,501	20,302,501
Dividend	29	–	–	–	–	(120,000,000)	(120,000,000)
Transfer to statutory reserve		–	14,818,667	–	–	(14,818,667)	–
Balance as at 31 December 2018		**1,200,000,000**	**311,582,367**	**1,114,180,214**	**–**	**608,896,618**	**3,234,659,199**

	Notes	Share capital	Statutory reserve	General reserve	Fair value reserve	Retained earnings	Total equity
Balance as at 1 January 2017 – as previously reported		1,200,000,000	283,786,867	1,114,180,214	(3,156,708)	577,878,210	3,172,688,583
Effect of transition to IFRS	4.1	–	–	–	–	(50,565,901)	(50,565,901)
Balance as at 1 January 2017 – Restated		1,200,000,000	283,786,867	1,114,180,214	(3,156,708)	527,312,309	3,122,122,682
Total comprehensive income for the year:							
Profit for the year		–	–	–	–	145,302,709	145,302,709
Change in fair value of available-for-sale investments		–	–	–	12,517,116	–	12,517,116
Remeasurement of defined benefit liability						(2,209,715)	(2,209,715)
Transfer to statutory reserve		–	12,976,833	–	–	(12,976,833)	–
Dividend	29	–	–	–	–	(90,000,000)	(90,000,000)
Balance as at 31 December 2017		1,200,000,000	296,763,700	1,114,180,214	9,360,408	567,428,470	3,187,732,792

The accompanying notes from (1) through (30) form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2018
(Saudi Arabian Riyals)

For the year ended 31 December	Notes	2018	2017 (Restated)
Cash flows from operating activities:			
Profit for the year		148,186,665	145,302,709
Adjustments to reconcile net profit for the year to net cash generated from operating activities:			
Depreciation and amortization	19 and 20	32,271,083	30,545,550
Charge for credit losses on account receivables		3,839,671	1,363,561
Reversal for impairment on investments held at amortized cost		(65,573)	–
Loss/(gain) on sale on property and equipment		49,355	(3,656)
Provision for employees' end-of-service benefits	14	14,418,075	792,232
Realized gain on investments	21	(10,679,758)	(6,864,227)
Unrealized gain on investments	21	(3,753,316)	(16,702,044)
Share of loss in equity-accounted investee	7	6,629,084	2,409,809
Changes in operating assets and liabilities:			
Account receivables		(15,543,634)	(18,559,057)
Prepaid expenses and other current assets		(7,020,494)	10,090,005
Account payables		36,151,101	(9,613,699)
Balance due to Capital Market Authority		44,779,519	(4,377,476)
Deferred revenue		(1,096,690)	3,180,227
Accrued expenses and other current liabilities		10,625,595	5,966,411
Cash generated from operations		258,790,683	143,530,345
Employees' end-of-service benefits paid	14	(13,880,716)	(6,208,090)
Net cash flows generated from operating activities		**244,909,967**	**137,322,255**
Cash flows from investing activities:			
Purchase of investments		(1,224,838,967)	(1,724,196,739)
Proceeds from disposal of investments		907,992,408	2,202,240,332
Purchase of intangible assets and property and equipment		(57,467,089)	(21,710,659)
Proceeds from disposal of property and equipment		(475,228)	4,500
Net cash flows (used in)/generated from investing activities		**(374,788,876)**	**456,337,434**
Cash flows from financing activities:			
Dividend paid	29	(120,000,000)	(90,000,000)
Net cash used in financing activities		**(120,000,000)**	**(90,000,000)**
Net change in cash and cash equivalents		**(249,878,909)**	**503,659,689**
Cash and cash equivalents at the beginning of the year		613,057,827	109,398,138
Cash and cash equivalents at the end of the year	11	**363,178,918**	**613,057,827**

The accompanying notes from (1) through (30) form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

For the year ended 31 December 2018
(Saudi Arabian Riyals)

1. GENERAL

Saudi Stock Exchange Company (Tadawul) ("the Company") is a Saudi Closed joint stock company registered in the Kingdom of Saudi Arabia established by Royal Decree No. M/15 dated 01/03/1428 H (corresponding to 20 March 2007). The share capital of the Company is SAR 1,200 Mn divided into 120 million shares of SAR 10 each fully subscribed by the Public Investment Fund ("PIF").

The Minister of Commerce and Industry resolution No. 320/k dated 1/12/1428 H (corresponding to 11 December 2007) was issued approving the license to establish the Company as a Saudi joint stock company. The Company was registered as a Saudi joint stock company in Riyadh under Commercial Registration number 1010241733 dated 2/12/1428 H (corresponding to 12 December 2007). All rights, assets, liabilities, obligations and records were transferred from Saudi Share Registration Company (a company which existed before the establishment of Tadawul) to the Company as at 30/11/1428 H (corresponding to 10 December 2007).

The Company's main activity is to provide, create and manage the mechanisms of trading of securities, providing depository and registration of securities ownership, dissemination of securities information and engage in any related other activity to achieve the objectives as defined in the Capital Market Law.

These consolidated financial statements comprise the financial statements of Tadawul and its subsidiaries (collectively referred to as "the Group").

The Company's registered address is as follows:

6897, King Fahd Road – Al Ulaya
Unit Number: 15
Riyadh 12211-3388
Kingdom of Saudi Arabia

Subsidiaries

Securities Depository Centre Company ("Edaa")

Capital Market Authority ("CMA") Board approved the formation of Securities Depository Centre Company ("Edaa") as a new Saudi joint stock company in the Kingdom of Saudi Arabia in accordance with the Capital Market Law issued by the Royal Decree No. M/30 dated 1424 H/02/06 (corresponding to 22 march 2003). Edaa was registered as a Saudi joint stock company in Riyadh under Commercial Registration No. 1010463866 dated 1437 H/11/27 (corresponding to 30 August 2016) with an authorized share capital of SAR 400 Mn divided into 40 million shares of SAR 10 each.

As at 31 December 2018 and 31 December 2017, the Company held 100 per cent of the issued share capital of Edaa. The main objective of Edaa is to provide depository and registration of securities ownership, and settlement services of securities.

Muqassa (Central Counterparty Clearing House)

During the year ended 31 December 2017, the Company's Board of Directors in their meeting dated 30 October 2017 under a decision number 03-04-2017/04-04-2017 approved the formation of a new company. Muqassa was registered as a closed joint stock company in Riyadh under Commercial Registration number 1010935131 dated 02/06/1439 (corresponding to 18 February 2018) with an authorized share capital of SAR 600 Mn divided into 60 million shares of SAR 10 each.

As at 31 December 2018, the Company held 100 per cent of the issued share capital of Muqassa. The main objective of Muqassa is to provide, create and manage the mechanisms of trading of securities, providing settlement and clearing services of securities and engage in any related other activity to achieve the objectives as defined in the Capital Market Law.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants ("SOCPA") and should be read in conjunction with the Company's financial statements as at 31 December 2017 prepared in accordance with Generally Accepted Accounting Standards issued by SOCPA ("Previous GAAP"). Therefore, in these consolidated financial statements, the Company has included additional disclosures in accordance with IFRS 1 "First-time of International Financial Reporting Standards".

The new Regulation for Companies issued through Royal Decree M/3 on 11 November 2015 (hereinafter referred as "the Law") came into force on 25/07/1437H (corresponding to 2 May 2016). The Company has to amend its by-laws for any changes to align those with provisions of the Law. Consequently, the Company shall present its amended by-laws to stockholders in their Extraordinary General Assembly meeting for their ratification. The legal proceedings to amend the Company's by-laws are still under process.

2. BASIS OF PREPARATION (CONTINUED)

2.2 Basis of measurement

These consolidated financial statements have been prepared on historical cost basis, except for financial assets measured at fair value through profit and loss and at amortized cost, and employees' end-of-service benefits, which are measured using actuarial techniques, using accrual basis of accounting and the going concern concept.

2.3 New standards, amendments, and standards issued:

New standards, amendment to standards, and interpretations:

The Group has adopted IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments" from 1 January 2018; the effect of application of these standards have been fully explained in Note 3. A number of other new standards, amendments to standards are effective from 1 January 2018 but they do not have a material effect on the Group's consolidated financial statements.

Standards issued but not yet effective

Following are the new standards and amendments to standards which are effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted them in preparing these consolidated financial statements. The following new standards and amendment to standards are not expected to have a significant impact on the Group's consolidated financial statements:

(i) IFRS 16 Leases

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognizes 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.

(ii) Other amendments

- Prepayment Features with Negative Compensation (Amendments to IFRS 9)
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)
- Plan Amendments, Curtailment or Settlement (Amendments to IAS 19)

2.4 Functional and presentation currency

These consolidated financial statements are presented in Saudi Arabian Riyals ("SAR"), which is the functional and presentational currency of the Group. All amounts have been rounded to the nearest SAR.

2.5 Critical accounting estimates and judgements

The preparation of these consolidated financial statements in conformity with IFRS requires the Management to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about material assumptions and estimation uncertainties are as follows:

	Note
Useful lives of property and equipment	3.2
Useful lives of intangible assets	3.3
Allowance for impairment on investments at amortized cost	3.1
Allowance for credit losses on accounts receivables	3.1
Defined benefits obligations – Employees' end-of-service benefits	3.8 and 14
Provision for specific obligations	15

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below, these policies have been consistently applied to all the periods presented unless otherwise stated, where policies are applicable only on or from 1 January 2018, those policies have been particularly specified.

Basis of consolidation

These consolidated financial statements comprise the financial statements of Tadawul and its subsidiaries (collectively referred to as "the Group"). Control is achieved when the Group is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

In assessing control, potential voting rights that presently exercisable are taken into account. The financial statements of subsidiaries are included in the IFRS consolidated financial statements from the date that control commences until the date control ceases.

All transactions and resulting balances between the Company and the subsidiaries are eliminated in preparing these consolidated financial statements. Any unrealized gains and losses arising from intra-group transactions are eliminated on consolidation.

Adoption of new standards as at 1 January 2018

Effective 1 January 2018, the Group has adopted IFRS 15 – "Revenue from Contracts with Customers" and IFRS 9 – "Financial Instruments". The impact of the adoption of these standards is explained below:

IFRS 15 – Revenue from Contracts with Customers

The Group adopted IFRS 15 – "Revenue from Contracts with Customers" resulting in a change in the revenue recognition policy of the Group in relation to its contracts with customers.

IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after 1 January 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes previous revenue guidance, which was found across several Standards and Interpretations within IFRS. It established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 also includes a comprehensive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

The Group has assessed that the impact of IFRS 15 is not material on the consolidated financial statements of the Group as at the initial adoption and the reporting date.

IFRS 9 – Financial Instruments

Effective 1 January 2018, the Group has adopted IFRS 9 "Financial Instruments" issued in July 2014 with a date of initial application at 1 January 2018. Accounting policies and significant judgements and estimates relating to IFRS 9 are set out below. As permitted by IFRS 9, the Group has opted for the modified retrospective approach that does not require restatement of comparative reporting periods. Hence, comparative figures are presented under Previous GAAP. The difference in the carrying amount of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings as of 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore are not comparable to the information presented for 2018 under IFRS 9.

3.1 Financial instruments

Policies applicable before 1 January 2018

Held-for-trading investments

Investment in trade securities which are purchased for trading purposes are initially recorded at cost and then remeasured and stated in the balance sheet at market value and included under current assets. Realized gain or loss on sale of trading securities and changes in market value at balance sheet date are credited or charged to consolidated statement of profit or loss.

Available-for-sale investments

Available-for-sale investments consist of quoted and unquoted equity investments including mutual funds' investments, which are not held for trading purposes and where the Group does not have any significant influence or control. These are initially recognized and subsequently remeasured at fair value. Any changes in fair value are recognized in equity as fair value reserve until the investment is disposed. On derecognition, any cumulative gain or loss

Notes to the consolidated financial statements
For the year ended 31 December 2018
(Saudi Arabian Riyals)

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (Continued)

Policies applicable before 1 January 2018 (Continued)

Available-for-sale investments (Continued)

previously recognized in equity is included in the consolidated statement of income. Any significant and prolonged decline in fair value of the available-for-sale, if any, is charged to the statement of income. The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, including investments in unquoted private equity, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same, otherwise the cost is considered to be the fair value for these investments.

Held-to-maturity investments

Investments having fixed or determinable payments and fixed maturity for which the Management has a positive intention and ability to hold to maturity are classified as held to maturity. Held-to-maturity investments are initially recognized at fair value including direct and incremental transaction costs and subsequently measured at amortized cost, less provision for impairment in their value. Amortized cost is calculated by taking into account any discount or premium on acquisition using the effective yield method. Any gain or loss on such investments is recognized in the consolidated statement of income when the investment is derecognized or impaired. These investments are classified in current assets if their maturity falls within twelve months from the balance sheet date and in non-current assets if their maturity after twelve months from the balance sheet date.

Account receivables

Account receivables are stated at original invoice amount less provisions made for doubtful debts. A provision against doubtful debts is established when there is an objective evidence that the Group will not be able to collect the amounts due according to the original terms of receivables. Bad debts are written off when identified, against its related provisions. The provisions are charged to consolidated statement of income and any subsequent recovery of receivable amounts previously written off are credited to income.

Impairment of financial assets

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

Impairment is determined as follows:

(a) For asset carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognized in the consolidated statement of income.

(b) For asset carried at cost, impairment is the difference between carrying amount and the present value cash flows discounted at the current market rate of return for a similar financial asset.

(c) For assets carried at amortized cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective profit rate.

For equity investments held as available-for-sale, a significant and prolonged decline in fair value below its cost represents objective evidence of impairment. The impairment loss cannot be reversed through consolidated statement of income as long as the asset continues to be recognized i.e. any increase in fair value after impairment can only be recognized in equity. On derecognition, any cumulative gain or loss previously recognized in equity is included in the consolidated statement of income for the period.

Policies applicable from 1 January 2018

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below:

(i) Classification and measurement of financial assets

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities. The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortized cost; Fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (Continued)

Policies applicable before 1 January 2018 (Continued)

Policies applicable from 1 January 2018 (Continued)

(i) Classification and measurement of financial assets (Continued)

Financial assets at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at FVOCI

A financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

Financial assets at FVTPL

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in the consolidated statement of profit or loss.
Financial assets at amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains, and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in the consolidated statement of profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income is calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (Continued)

Policies applicable before 1 January 2018 (Continued)

Policies applicable from 1 January 2018 (Continued)

(ii) Classification and measurement of financial liabilities

Financial liabilities at amortized cost are initially measured at fair value less transaction costs.

Subsequently, financial liabilities are measured at amortized cost, unless they are required to be measured at fair value through profit or loss or the Group has opted to measure a liability at fair value through profit or loss as per the requirements of IFRS 9.

(iii) Derecognition

Financial assets

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

Financial liabilities

A financial liability is derecognized when its contractual obligations are discharged or cancelled, or expire.

(iv) Off-setting

Financial assets and liabilities are offset and reported net in the statement of financial position when there is a currently legally enforceable right to set off the recognized amounts and when the Group intends to settle on a net basis, or to realize the asset and settle the liability simultaneously. Income and expenses are not offset in the statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

(v) Impairment of financial assets

IFRS 9 uses "expected credit loss" (ECL) model to assess for impairment of financial assets. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments.

Loss allowances for receivables are always measured at an amount equal to lifetime ECL. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

At each reporting date, the Group assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. Impairment losses related to accounts receivables and investments at amortized cost are presented in the consolidated statement of profit or loss.

(vi) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- Comparative periods have not been restated. Differences arising due to change in classification and the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
  - i. The determination of the business model within which a financial asset is held.
  - ii. The designation and revocation of previously designated financial assets and financial liabilities as measured at FVTPL.
  - iii. The designation of certain investments in equity instruments not held for trading as FVOCI.
  - iv. For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (Continued)

3.1.1 Impact of adopting of IFRS 9 at 1 January 2018

The following table and the accompanying notes below explain the original measurement categories under Previous GAAP and the new measurement categories under IFRS 9 for the class of the Group's consolidated financial assets as at 1 January 2018.

	Classification under previous GAAP	New classification under IFRS 9	Carrying amount under previous GAAP	Carrying amount under IFRS 9
Financial assets				
Investments	HFT/AFS	FVTPL	1,316,230,886	1,316,230,886
Investments	HTM	Amortized cost	1,276,626,376	1,275,089,448
			2,592,857,262	2,591,320,334
Cash and cash equivalents	Loans and receivables	Amortized cost	613,057,827	613,057,827
Account receivables, net	Loans and receivables	Amortized cost	26,916,210	26,890,379
Total financial assets			3,232,831,299	3,231,268,540
Financial liabilities				
Account payables	Amortized cost	Amortized cost	51,116,941	51,116,941
Balance due to Capital Market Authority	Amortized cost	Amortized cost	11,881,482	11,881,482
Accrued expenses and other current liabilities	Amortized cost	Amortized cost	48,511,337	48,511,337
Total financial liabilities			111,509,760	111,509,760

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (Continued)

3.1.1 Impact of adopting of IFRS 9 at 1 January 2018 (Continued)

(i) (Reconciliation of carrying amounts under Previous GAAP to the carrying amounts under IFRS 9 at the adoption of IFRS 9

	Previous GAAP carrying amount as at 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at 1 January 2018
Financial assets				
Amortized cost				
Investments	1,276,626,376	–	(1,536,928)	1,275,089,448
Account receivables	26,916,210	–	(25,831)	26,890,379
Cash and cash equivalents	613,057,827	–	–	613,057,827
Total amortized cost	1,916,600,413	–	(1,562,759)	1,915,037,654
FVTPL				
Investments	1,227,595,478	88,635,408	–	1,316,230,886
Total FVTPL	1,227,595,478	88,635,408	–	1,316,230,886
Available for sale				
Investments	88,635,408	(88,635,408)	–	–
Total financial assets	3,232,831,299	–	(1,562,759)	3,231,268,540
Financial liabilities				
Amortized cost				
Accounts payables	51,116,941	–	–	51,116,941
Balance due to Capital Market Authority	11,881,482	–	–	11,881,482
Accrued expenses and other current liabilities	48,511,337	–	–	48,511,337
Total financial liabilities	111,509,760	–	–	111,509,760

(ii) Impact on retained earnings and other reserves

	Fair value reserve	Retained earnings
Balance as at 31 December 2017 – Restated	9,360,408	597,628,978
Effect of:		
Reclassification from available for sale to FVTPL	(9,360,408)	9,360,408
Recognition of expected credit losses under IFRS 9	–	(1,562,759)
Opening balance under IFRS 9 (1 January 2018)	–	605,426,627

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (Continued)

3.1.1 Impact of adopting of IFRS 9 at 1 January 2018 (Continued)

(iii) The following table provides carrying value of financial assets and financial liabilities in the statement of financial position.

	31 December 2018					
	Mandatorily at FVTPL	Designated at FVTPL	FVOCI – debt	Designated as at FVOCI–equity	Amortized cost	Total carrying amount
Financial assets						
Cash and cash equivalents	–	–	–	–	363,178,918	363,178,918
Investments	1,303,776,087	–	–	–	1,618,889,453	2,922,665,540
Account receivables	–	–	–	–	38,594,342	38,594,342
Total financial assets	1,303,776,087	–	–	–	2,020,662,713	3,324,438,800
Financial liabilities						
Account payables	–	–	–	–	87,268,042	87,268,042
Balance due to Capital Market Authority	–	–	–	–	56,661,001	56,661,001
Accrued expenses and other liabilities	–	–	–	–	61,925,886	61,925,886
Total financial liabilities	–	–	–	–	205,854,929	205,854,929

3.2 Property and equipment

Property and equipment except land are measured at cost less accumulated depreciation and accumulated impairment losses, if any. Land is measured at its cost.

Cost includes expenditure that are directly attributable to the acquisition of the asset including the cost of purchase and any other costs directly attributable to bringing the assets to a working condition for their intended use. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the assets (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss in the year the asset is derecognized.

The cost of replacing part of an item of operating fixed assets is recognized in the carrying amount of the item if it is probable the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The cost of the day-to-day servicing of operating fixed assets are recognized in the statement of profit or loss as incurred.

Depreciation

Depreciation is calculated over depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in the consolidated statement of profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property and equipment. Depreciation of an asset begins when it is available for use.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Property and equipment (Continued)

Depreciation (Continued)

The estimated useful lives for current and comparative periods of different items of property and equipment are as follows:

	Estimated useful lives (years)
Building	30
Furniture and fixtures	10
Computers	4
Office equipment	6
Vehicles	4

Depreciation methods, useful lives, impairment indicators and residual values are reviewed at each annual reporting date and adjusted, if appropriate.

3.3 Intangible assets

These represent software held for use in the normal course of the business and are stated at cost less accumulated amortization and accumulated impairment losses, if any. Amortization is charged to the statement of profit or loss over an estimated useful life of the software using the straight-line method. The estimated useful life of software is six years.

3.4 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit", or "CGU"). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the group of CGUs that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the consolidated statement of profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss (except against goodwill) is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3.5 Investments in associates (investment in equity-accounted investees)

An associate is an entity over which the Group has significant influence, but not control or joint control. Significant influence is the power to participate in the financial and operating policy decisions of the investee.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity-accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has a corresponding obligation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash at banks in current accounts and other short-term liquid investments with original maturities of three months or less, if any, which are available to the Group without any restrictions.

3.7 Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost in the statement of profit or loss.

3.8 Defined benefits obligation – employees' end-of-service benefits

Employees' end-of-service benefits are payable to all employees employed under the terms and conditions of the labour laws applicable to the Group.

The Group's net obligation in respect of employees' end-of-service benefits is calculated separately for each plan by estimating the amount of future benefits that employees have earned in the current and prior periods. That benefit is discounted to determine its present value.

Remeasurements, comprising of actuarial gains and losses, are recognized immediately in the consolidated statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income, in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

The Group recognizes the following changes in the defined benefits obligation under "operating cost" and "general and administrative expenses" in the profit and loss account:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Interest expense

The calculation of defined benefits obligation is performed annually by a qualified actuary using the projected unit credit method.

3.9 Revenue recognition

The Group recognizes revenue under IFRS 15 using the following five steps model:

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Revenue recognition (Continued)

Dividend income

Dividend income is recognized when the right to receive is established.

Special commission income

Special commission income is recognized in the statement of profit or loss on an effective yield basis.

3.10 Expenses

General and administrative expenses are those arising from the Group's efforts underlying the marketing, consultancy, and maintenance functions. Allocations of common expenses between operating costs and general and administrative expenses, when required, are made on a consistent basis.

3.11 Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate ruling at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of FVOCI instruments, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

3.12 Zakat

Based on the GAZT letter number 2999/12 dated 5/6/1429 H, the Group will be subject to Zakat after the initial public offering and the participation of private sector in its share capital in accordance with the approval of the Minister of Finance on GAZT's study regarding this matter dated 24/5/1429H. In addition, based on the GAZT letter number 16/33008 dated 28/12/1438H, the Group is not subject to Zakat as it is fully owned by the Public Investment Fund (a governmental agency) and hence no provision is recorded in these consolidated financial statements.

3.13 Contingent liabilities

All possible obligations arising from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly with the control of the Group; or all present obligations arising from past events but not recognized because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or (ii) the amount of the obligation cannot be measured with sufficient reliability; all should be assessed at reporting date and disclosed in the Group's consolidated financial statements under contingent liabilities.

3.14 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

The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The fair value of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 Fair value measurement (Continued)

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

At each reporting date, Management of the Group analyzes the movements in the values of assets and liabilities which are required to be remeasured or reassessed as per the Group's accounting policies. For this analysis, the Management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

3.15 Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset as current when it is:

- expected to be realized or intended to sold or consumed in normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realized within twelve months after the reporting period; or
- cash or cash equivalent, unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- it is expected to be settled in normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within twelve months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

The Group classifies all other liabilities as non-current.

4. EXPLANATION OF TRANSITION TO IFRS AND OTHER ADJUSTMENTS

As stated in Note 2, these are the Group's consolidated financial statements prepared in accordance with IFRS. The basis of preparation and accounting policies set out in Notes 2 and 3 respectively have been applied consistently in preparation of these consolidated financial statements.

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4. EXPLANATION OF TRANSITION TO IFRS AND OTHER ADJUSTMENTS (CONTINUED)

An explanation of how the transition from Previous GAAP (SOCPA) to IFRS and other adjustments is set out in the following tables:

4.1 Reconciliation of equity

	31 December 2017		
	Balance as per SOCPA	Adjustments	Balance as per IFRS
ASSETS			
Non-current assets			
Property and equipment (Note 4.4a)	22,889,063	3,247,998	26,137,061
Projects under progress (Note 4.4a)	18,094,098	(18,094,098)	–
Intangible assets (Note 4.4a)	66,338,189	14,846,100	81,184,289
Equity accounted investee (Note 4.3b)	79,436,665	(30,200,508)	49,236,157
Investments (Note 4.4b)	1,108,635,408	5,106,364	1,113,741,772
	1,295,393,423	(25,094,144)	1,270,299,279
Current assets			
Investments (Note 4.4b)	1,477,595,478	1,520,012	1,479,115,490
Account receivables	26,916,210	–	26,916,210
Prepaid expenses and other current assets (Note 4.4b)	31,565,763	(6,626,376)	24,939,387
Cash and cash equivalents	613,057,827	–	613,057,827
	2,149,135,278	(5,106,364)	2,144,028,914
TOTAL ASSETS	3,444,528,701	(30,200,508)	3,414,328,193
EQUITY AND LIABILITIES			
Equity			
Share capital	1,200,000,000	–	1,200,000,000
Statutory reserve	296,763,700	–	296,763,700
General reserve	1,114,180,214	–	1,114,180,214
Fair value reserve	9,360,408	–	9,360,408
Retained earnings (Note 4.3a and 4.3b)	604,669,705	(37,241,235)	567,428,470
TOTAL EQUITY	3,224,974,027	(37,241,235)	3,187,732,792
Non-current liabilities			
Employees' end-of-service benefits (Note 4.3)	84,784,242	7,040,727	91,824,969
Provision for specific obligations	17,430,875	–	17,430,875
	102,215,117	7,040,727	109,255,844
Current liabilities			
Account payables	51,116,941	–	51,116,941
Balance due to Capital Market Authority	11,881,482	–	11,881,482
Deferred revenue	5,829,797	–	5,829,797
Accrued expenses and other current liabilities	48,511,337	–	48,511,337
	117,339,557	–	117,339,557
TOTAL LIABILITIES	219,554,674	7,040,727	226,595,401
TOTAL EQUITY AND LIABILITIES	3,444,528,701	–	3,414,328,193

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4. EXPLANATION OF TRANSITION TO IFRS AND OTHER ADJUSTMENTS (CONTINUED)

4.1 Reconciliation of equity (Continued)

	1 January 2017		
	Balance as per SOCPA	Adjustments	Balance as per IFRS
ASSETS			
Non-current assets			
Property and equipment (Note 4.4a)	30,442,804	1,948,421	32,391,225
Projects under progress (Note 4.4a)	29,144,844	(29,144,844)	–
Intangible assets (Note 4.4a)	56,569,437	27,196,423	83,765,860
Equity-accounted investee (Note 4.3b)	81,846,474	(30,200,508)	51,645,966
Investments (Note 4.4b)	1,446,118,292	6,505,975	1,452,624,267
	1,644,121,851	(23,694,533)	1,620,427,318
Current assets			
Investments (Note 4.4b)	1,582,072,800	8,935,739	1,591,008,539
Account receivables	9,720,714	–	9,720,714
Prepaid expenses and other current assets (Note 4.4b)	41,655,768	(15,441,714)	26,214,054
Cash and cash equivalents	109,398,138	–	109,398,138
	1,742,847,420	(6,505,975)	1,736,341,445
TOTAL ASSETS	3,386,969,271	(30,200,508)	3,356,768,763
EQUITY AND LIABILITIES			
Equity			
Share capital	1,200,000,000	–	1,200,000,000
Statutory reserve	283,786,867	–	283,786,867
General reserve	1,114,180,214	–	1,114,180,214
Fair value reserve	(3,156,708)		(3,156,708)
Retained earnings (Note 4.3a and 4.3b)	577,878,210	(50,565,901)	527,312,309
TOTAL EQUITY	3,172,688,583	(50,565,901)	3,122,122,682
Non-current liabilities			
Employees' end-of-service benefits (Note 4.3a)	74,665,719	20,365,393	95,031,112
Provision for specific obligations	17,430,875	–	17,430,875
	92,096,594	20,365,393	112,461,987
Current liabilities			
Account payables	60,730,640	–	60,730,640
Balance due to Capital Market Authority	16,258,958	–	16,258,958
Deferred revenue	2,649,570	–	2,649,570
Accrued expenses and other liabilities	42,544,926	–	42,544,926
	122,184,094	–	122,184,094
TOTAL LIABILITIES	214,280,688	20,365,393	234,646,081
TOTAL EQUITY AND LIABILITIES	3,386,969,271	(30,200,508)	3,356,768,763

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4. EXPLANATION OF TRANSITION TO IFRS AND OTHER ADJUSTMENTS (CONTINUED)

4.2 Reconciliation of statement of profit or loss and other comprehensive income

	For the year ended 31 December 2017		
	SOCPA	Adjustments	IFRS
Operating revenue	545,449,550	–	545,449,550
Operating costs (Note 4.3)	(294,148,341)	6,990,471	(287,157,870)
Gross profit	251,301,209	6,990,471	258,291,680
General and administrative expenses (Note 4.3)	(209,381,322)	8,543,910	(200,837,412)
Operating profit	41,919,887	15,534,381	57,454,268
Investment income	87,188,113	–	87,188,113
Share of loss in equity-accounted investee	(2,409,809)	–	(2,409,809)
Other income	3,070,137	–	3,070,137
Non-operating profit	87,848,441	–	87,848,441
Profit for the year	129,768,328	15,534,381	145,302,709
Other comprehensive income			
Items that will not be reclassified to consolidated statement of profit or loss in subsequent periods:			
Remeasurements of the defined benefit liability (Note 4.3)	–	(2,209,715)	(2,209,715)
Items that can be reclassified to consolidated statement of profit or loss in subsequent periods:			
Equity investments at FVOCI – net change in fair value	12,517,116	–	12,517,116
Other comprehensive income	12,517,116	(2,209,715)	10,307,401
Total comprehensive income	142,285,444	13,324,666	155,610,110

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4. EXPLANATION OF TRANSITION TO IFRS AND OTHER ADJUSTMENTS (CONTINUED)

4.3 Changes due to transition from SOCPA to IFRS

(a) Employees' end-of-service benefits

Under SOCPA Standards, the Group recorded its liability based on regulatory requirements. In order to determine the liability under IFRS, the Group performed a detailed actuarial valuation of its employees' end-of-service benefits.

The impact arising from the above change is summarized as follows:

Statement of financial position

	31 December 2017		
	SOCPA	Adjustments	IFRS
Balance at the beginning of the year	74,665,719	20,365,393	95,031,112
Charge for the year/current service cost and interest cost	16,326,613	(15,534,381)	792,232
Actuarial remeasurement loss recognized in other comprehensive income	–	2,209,715	2,209,715
Payments made during the year	(6,208,090)	–	(6,208,090)
Balance at the end of the year	84,784,242	7,040,727	91,824,969

	1 January 2017
Balance as per Previous GAAP	74,665,719
Adjustment	20,365,393
Balance as per IFRS	95,031,112

(b) Equity-accounted investee

As part of IFRS transition, the Company identified that there existed impairment indicators relating to its equity-accounted investee, which were not considered under the Previous GAAP. Accordingly, the Company performed an impairment test and recognized a loss of SAR 30,200,508 on the date of transition.

4.4 Changes due to presentation enhancement and reclassification

(a) Property and equipment, intangibles and projects under progress

Projects under progress has been reclassified under property and equipment and intangible assets.

(b) Investments and prepaid expenses and other assets

Accrued income on investments classified under prepaid expenses and other current assets has been reclassified to investments.

4.5 Statement of cash flows

There are no material differences between the consolidated statement of cash flows presented under IFRSs and the consolidated statement of cash flows presented under Previous GAAP.

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5. PROPERTY AND EQUIPMENT

	Land	Building	Furniture and fixtures	Computers	Office equipment	Vehicles	Total
Cost:							
Balance as at 1 January 2017	2,310,985	618,248	20,693,597	147,207,861	18,207,546	1,656,350	190,694,587
Transfers due to adoption of IFRS (Note 4.1)	–	–	965,660	1,912,746	369,592	–	3,247,998
Additions	–	–	508,442	3,777,318	246,366	–	4,532,126
Disposals	–	–	(382,390)	(787,947)	(428,180)	–	(1,598,517)
Balance as at 31 December 2017 – Restated	2,310,985	618,248	21,785,309	152,109,978	18,395,324	1,656,350	196,876,194
Balance as at 1 January 2018	2,310,985	618,248	21,785,309	152,109,978	18,395,324	1,656,350	196,876,194
Additions	–	–	692,156	1,635,572	318,458	–	2,646,186
Disposals	–	–	(2,216,232)	(48,802,995)	(802,590)	–	(51,821,817)
Balance as at 31 December 2018	**2,310,985**	**618,248**	**20,261,233**	**104,942,555**	**17,911,192**	**1,656,350**	**147,700,563**
Accumulated depreciation:							
Balance as at 1 January 2017	–	27,478	16,418,883	127,183,080	15,714,880	907,462	160,251,783
Charge for the year	–	20,608	1,035,500	9,930,423	815,725	282,767	12,085,023
Disposals	–	–	(381,546)	(787,947)	(428,180)	–	(1,597,673)
Balance as at 31 December 2017	–	48,086	17,072,837	136,325,556	16,102,425	1,190,229	170,739,133
Balance as at 1 January 2018	–	48,086	17,072,837	136,325,556	16,102,425	1,190,229	170,739,133
Charge for the year	–	20,608	839,299	8,463,836	880,067	209,017	10,412,827
Disposals	–	–	(2,171,022)	(48,800,131)	(801,309)	–	(51,772,462)
Balance as at 31 December 2018	**–**	**68,694**	**15,741,114**	**95,989,261**	**16,181,183**	**1,399,246**	**129,379,498**
Net book value:							
As at 31 December 2018	**2,310,985**	**549,554**	**4,520,119**	**8,953,294**	**1,730,009**	**257,104**	**18,321,065**
As at 31 December 2017 – Restated	2,310,985	570,162	4,712,472	15,784,422	2,292,899	466,121	26,137,061

5.1 The allocation of depreciation expense between operating costs and general and administrative expenses is as follows:

Description	2018	2017
Operating costs	7,209,368	8,837,065
General and administrative expenses	3,203,459	3,248,005
	10,412,827	12,085,070

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6. INTANGIBLE ASSETS

For the year ended 31 December	Note	2018	2017 (Restated)
Cost:			
Balance at beginning of the year		251,256,797	208,181,418
Transfers		–	11,796,792
Additions		55,296,131	16,432,487
Transfers due to adoption of IFRS	4.1	–	14,846,100
Disposals		(821,160)	–
Balance at end of the year		305,731,768	251,256,797
Accumulated amortization:			
Balance at beginning of the year		170,072,508	151,611,981
Charge for the year	6.1	21,858,256	18,460,527
Disposals		(821,160)	–
Balance at end of the year		191,109,604	170,072,508
Net book value as at 31 December		114,622,164	81,184,289

6.1 The allocation of amortization expense between operating costs and general and administrative expenses is as follows:

For the year ended 31 December	2018	2017 (Restated)
Operating cost	19,746,261	15,333,988
General and administrative expenses	2,111,995	3,126,538
	21,858,256	18,460,526

7. EQUITY-ACCOUNTED INVESTEE

This represents the Company's share of investment in Tadawul Real Estate Company ("the Associate"), a company incorporated in the Kingdom of Saudi Arabia, where the Company has significant influence. The Company owns 20% (31 December 2017: 20%; 1 January 2017: 20%) share capital of the Associate. The main activity of the Associate is to develop Tadawul's headquarters in the King Abdullah Financial District, Riyadh. The Group has not earned any dividend income from the Associate.

The movement of investment in the Associate is as follows:

For the year ended 31 December	2018	2017 (Restated)
Balance at beginning of the year	49,236,157	51,645,966
Share of loss for the year	(6,629,084)	(2,409,809)
Balance at end of the year	42,607,073	49,236,157

The Group has recognized share of loss based on the latest available financial statements of the Associate.

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7. EQUITY-ACCOUNTED INVESTEE (CONTINUED)

The following table summarizes the financial information of the Associate as included in its own financial statements. The table also reconcile summarized financial information to the carrying amount of the Group's interest in the Associate:

	2018	2017
Percentage ownership interest	20%	20%
Total current assets	46,515,781	317,171,854
Total non-current assets	1,024,509,060	763,292,408
Total current liabilities	30,349,849	2,856,098
Total non-current liabilities	676,637,087	680,424,839
Net assets (100%)	364,037,905	397,183,325
Group's share of net assets (20%)	72,807,581	79,436,665

8. INVESTMENTS

Investment securities portfolios are summarized as follows:

	Notes	31 December 2018	31 December 2017	1 January 2017
Non-current				
Investments at amortized cost	8.1	306,327,691	–	–
Held-to-maturity investments	8.2	–	1,025,106,364	1,376,505,975
Available-for-sale investments	8.3	–	88,635,408	76,118,292
		306,327,691	1,113,741,772	1,452,624,267
Current				
Investments at amortized cost	8.4	1,312,561,762	–	–
Held-to-maturity investments	8.5	–	251,520,012	1,131,531,571
Investments at FVTPL	8.6	1,303,776,087	–	–
Held-for-trading investments	8.7	–	1,227,595,478	459,476,968
		2,616,337,849	1,479,115,490	1,591,008,539

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8. INVESTMENTS (CONTINUED)

8.1 Investments at amortized cost – non-current

This represents investments in Sukuk issued by various counterparties having sound credit rating. These Sukuk carry an average profit rate of 3.15% per annum. Remaining maturity periods of these Sukuk vary between one and eight years. As at 31 December 2018, accrued profit of SAR 2.8 Mn was included in the amortized cost of these investments.

The movement of the allowance for impairment of investments held at amortized cost for the year ended 31 December 2018 is summarized as follows:

	2018
Balance at the beginning of the year	–
Effect on the adoption of IFRS 9 at 1 January 2018	1,536,928
Reversal for the year	(65,573)
Balance at the end of the year	1,471,355

8.2 Held-to-maturity investments – non-current

This represents investments in Sukuk issued by various counterparties having sound credit rating. These Sukuk were carrying an average profit rate of 4.28% per annum for the year ended 31 December 2017 (1 January 2017: 3.20% per annum). Remaining maturity periods of these Sukuk vary between one and eight years. As at 31 December 2017, accrued profit of SAR 5.1 Mn (1 January 2017: SAR 9.8 Mn) was included in the amortized cost of these investments.

8.3 Available-for-sale investments

The cost and fair value of available-for-sale investments are as follows:

	31 December 2017		1 January 2017	
	Cost	Fair value	Cost	Fair value
Real estate funds	79,275,000	88,635,408	79,275,000	76,118,292
Total	79,275,000	88,635,408	79,275,000	76,118,292
Unrealized gain/(loss)		9,360,408		(3,156,708)

8.4 Investments at amortized cost – current

	Notes	31 December 2018
Sukuk	8.4.1	426,925,624
Murabaha	8.4.2	885,636,138
Total		1,312,561,762

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8. INVESTMENTS (CONTINUED)

8.4 Investments at amortized cost – current (Continued)

8.4.1 This represents investment in Sukuk issued by various counterparties which are domiciled in the Kingdom of Saudi Arabia having sound credit rating. These Sukuk carry an average special commission of 4.28% per annum for the year ended 31 December 2018.

8.4.2 Short-term Murabaha placements are with counterparties which are domiciled in the Kingdom of Saudi Arabia, having investment grade credit ratings and earn average special commission rate of 3.23% per annum for the year ended 31 December 2018.

8.4.3 As at 31 December 2018, accrued profit of SAR 5.1 Mn was included in the amortized cost of these investments.

8.5 Held-to-maturity investments – current

	Notes	31 December 2017	1 January 2017
Sukuk	8.5.1	151,392,234	–
Murabaha	8.5.2	100,127,778	1,131,531,571
Total		251,520,012	1,131,531,571

8.5.1 This represents investment in Sukuk issued by various counterparties which are domiciled in the Kingdom of Saudi Arabia having sound credit rating. These Sukuk were carrying an average special commission of 3.30% per annum for the year ended 31 December 2017. These placements had an original maturity period of more than three months and less than twelve months.

8.5.2 Short-term Murabaha placements are with counterparties which are domiciled in the Kingdom of Saudi Arabia, having investment grade credit ratings and earn average special commission from 2.30% per annum for the year ended 31 December 2017 (1 January 2017: 3.14% per annum). These placements were matured in June 2018.

8.5.3 As at 31 December 2017, accrued profit of SAR 1.5 Mn (1 January 2017: 9.5 Mn) was included in the amortized cost of these investments.

8.6 Investments at FVTPL:

The cost and fair value of investments held at FVTPL are as follows:

	31 December 2018	
	Cost	Fair value
Money market funds	1,192,965,777	1,228,320,127
Real estate funds	79,275,000	75,455,960
Total	1,272,240,777	1,303,776,087
Unrealized gain		31,535,310

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8. INVESTMENTS (CONTINUED)

8.7 Held-for-trading investments

The cost and fair value of held-for-trading investments are as follows:

	31 December 2017		1 January 2017	
	Cost	Fair value	Cost	Fair value
Money market funds	1,209,173,892	1,227,595,478	457,757,425	459,476,968
Unrealized gain		18,421,586		1,719,543

9. ACCOUNT RECEIVABLES

	Notes	31 December 2018	31 December 2017	1 January 2017
Account receivables:				
– Related parties	24.1	12,682,167	4,416,769	2,273,187
– Others		32,641,416	25,363,180	8,947,705
Less: Allowance for credit losses	9.1	(6,729,241)	(2,863,739)	(1,500,178)
		38,594,342	26,916,210	9,720,714

9.1 The movement in the allowance for credit losses is summarized as follows:

For the year ended 31 December	2018	2017
Balance at the beginning of the year	2,863,739	1,500,178
Effect on the adoption of IFRS 9 at 1 January 2018	25,831	–
Charge for the year	3,839,671	1,363,561
Balance at the end of the year	6,729,241	2,863,739

10. PREPAID EXPENSES AND OTHER CURRENT ASSETS

	31 December 2018	31 December 2017	1 January 2017
Prepaid insurance expenses	7,672,925	6,839,732	6,886,582
Prepaid rent expenses	5,301,243	2,834,856	5,278,981
Accrued operational revenue	5,709,830	4,445,427	4,029,076
Advance to employees	4,377,876	4,514,536	2,664,701
Prepaid maintenance expenses	623,537	1,693,280	1,604,212
Value added tax (VAT)	1,748,422	–	–
Others	6,526,048	4,611,556	5,750,502
	31,959,881	24,939,387	26,214,054

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11. CASH AND CASH EQUIVALENTS

	Note	31 December 2018	31 December 2017	1 January 2017
Current at banks – current accounts		68,823,309	169,057,827	9,398,138
Short-term Murabaha deposits	11.1	294,355,609	444,000,000	100,000,000
		363,178,918	613,057,827	109,398,138

11.1 Short-term Murabaha deposits are with counterparties having good credit ratings. These placements have an original maturity period of three months or less and carry an average special commission rate of 2.7% (31 December 2017: 2.1%; 1 January 2017: 2.7%).

12. STATUTORY RESERVE

In accordance with the Company's by-laws and the previous Saudi Arabian Regulations for Companies, the Group sets aside 10% of its net income each year as statutory reserve until such reserve equals to 50% of the share capital. The new Saudi Arabian Regulations for Companies that came into effect on 25 Rajab 1437H (corresponding to May 2, 2016) requires companies to set aside 10% of its net income each year as statutory reserve until such reserve reaches 30% of the share capital. The Group is currently in the process of amending its by-laws as described in Note 2. This reserve is currently not available for distribution to the shareholders of the Group.

13. GENERAL RESERVE

In accordance with the approval of the Chairman of CMA *vide* letter No. 524/2007 dated 13 February 2007, a balance of the retained earnings was transferred to a contractual reserve, starting from 2006 for the purpose of financing the construction of Tadawul's headquarters in the King Abdullah Financial District and any other future purposes to be decided by the Company's Board of Directors. During the year 2008, the Board of Directors of the Company resolved according to a decision number 6/8/2008 to transfer such balance of the contractual reserve to general reserve.

14. EMPLOYEES' END-OF-SERVICE BENEFITS

The movement in employees' end-of-service benefits is as follows:

For the year ended 31 December	2018	2017
Balance at beginning of the year	91,824,969	95,031,112
Current service cost	11,441,606	(2,536,427)
Interest cost	2,976,469	3,328,659
Amount recognized in profit or loss	14,418,075	792,232
Remeasurement (gain)/loss recognized in other comprehensive income	(20,302,501)	2,209,715
Benefits paid during the year	(13,880,716)	(6,208,090)
Balance at the end of the year	72,059,827	91,824,969

14. EMPLOYEES' END-OF-SERVICE BENEFITS (CONTINUED)

14.1 Remeasurement (gain)/ loss recognized in other comprehensive income for the year is as follows:

For the year ended 31 December	2018	2017
Effect of changes in financial assumptions	(11,490,675)	1,899,851
Effect of changes in demographic assumptions	(1,413,332)	225,642
Effect of experience adjustments	(7,398,494)	84,222
Remeasurement (gain)/ loss recognized in other comprehensive income	(20,302,501)	2,209,715

14.2 Net end-of-service benefit liability is as follows:

	31 December 2018	31 December 2017	1 January 2017
Present value of benefit liability	72,059,827	91,824,969	95,031,112
Fair value of plan assets	–	–	–
Net defined benefit liability	72,059,827	91,824,969	95,031,112

14.3 Principal actuarial assumptions

The following were the principal actuarial assumptions:

	31 December 2018	31 December 2017	1 January 2017
Key actuarial assumptions			
Discount rate used	4.25%	3.15%	3.35%
Future growth in salary	5.00%	5.00%	5.00%
Turnover	Heavy	Heavy	Heavy
Demographic assumptions			
Retirement age	64 years	64 years	64 years

Discount rate used

This rate is used to obtain the actuarial present value of the projected benefits. As per IAS – 19 (para 83), the rate to be used to discount post-employment benefit obligations (both funded and unfunded) shall be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the end of reporting period) on government bonds shall be used. The currency and term of the corporate bonds or government bonds shall be consistent with the currency and expected term of the post-employment benefit obligation. Since there is no deep market for high quality corporate bonds in the Kingdom of Saudi Arabia, therefore, the market yield of government bond is considered.

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14. EMPLOYEES' END-OF-SERVICE BENEFITS (CONTINUED)

14.3 Principal actuarial assumptions (Continued)

Salary increases

With regards to the past trend, it is assumed that the salaries would increase at a rate of 5.00% per annum compound in the long range. The valuation is sensitive to the gap between the interest and salary increase assumptions. The situation will be kept under review. Salary increments each year are assumed to be given on 1 February.

14.4 Maturity Profile of the defined benefit liability

	2018
Weighted average duration (years)	6.90
Distribution of timing of benefit payments (time in years):	
1	6,753,017
2	7,810,278
3	7,013,063
4	7,689,513
5	6,038,039
6-10	31,985,063

14.5 Principal actuarial assumptions

Sensitivity analysis

Reasonably possible changes as to one of the relevant actuarial assumptions, holding other assumptions constant, the amount of defined benefit obligations would have been –

	31 December 2018		31 December 2017		1 January 2017	
	Increase	Decrease	Increase	Decrease	Increase	Decrease
Discount rate (0.5% movement)	69,444,786	74,476,710	87,191,035	96,863,578	90,092,610	100,408,869
Future salary growth (0. 5% movement)	73,243,047	70,578,235	97,399,935	86,660,491	100,492,869	89,965,621

14.6 Risks associated with defined benefit plans

Longevity risks:

The risk arises when the actual lifetime of retirees is longer than expectation. This risk is measured at the plan level over the entire retiree population.

Salary increase risk:

The most common type of retirement benefit is one where the benefit is linked with final salary. The risk arises when the actual salary increases are higher than expectation and impacts the liability accordingly.

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15. PROVISION FOR SPECIFIC OBLIGATIONS

At the establishment of the Company, all rights, assets, liabilities, obligations and records were transferred from the Saudi Share Registration Company (a company which existed before the establishment of Tadawul), to the Company as at 30/11/1428H (corresponding to 10 December 2007) under CMA Board Resolution number 1-202-2006 dated 08/02/1427H and the decision of the Council of Ministers number 91 dated 16/04/1424H. Accordingly, the Company is responsible for all obligations arising from the operations of the Saudi Share Registration Company.

The Company had made a provision equal to the amount of net assets transferred from the Saudi Share Registration Company. As at 31 December 2018, the provision was in the amount of SAR 17,430,875 (31 December 2017: SAR 17,430,875; and 1 January 2017: SAR 17,430,875).

16. ACCOUNT PAYABLES

	Note	31 December 2018	31 December 2017	1 January 2017
Trade payables		80,314,161	45,147,105	53,013,611
Related parties	24.3	6,953,881	5,969,836	7,717,029
		87,268,042	51,116,941	60,730,640

17. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	31 December 2018	31 December 2017	1 January 2017
Accrued employees expenses	39,599,064	30,109,595	25,621,764
Accrued employees vacation expenses	13,729,007	14,443,096	14,254,402
Accrued social insurance – General Organization for Social Insurance	1,409,935	1,559,305	1,547,762
Others	4,398,926	2,399,341	1,120,998
	59,136,932	48,511,337	42,544,926

18. OPERATING REVENUE

For the year ended 31 December	2018	2017
Trading commission	321,711,062	304,287,195
Securities depository services	137,834,096	132,931,412
Market information services	60,808,776	63,027,657
Listing fee	61,580,174	44,959,233
Other services	1,345,932	244,053
	583,280,040	545,449,550

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18. OPERATING REVENUE (CONTINUED)

In accordance with the Council of CMA resolution No. (17/270/6) dated 18 January 2017, operating revenues arrangement between the Group and CMA with effect from 1 January 2017 is as follows:

- CMA's is entitled to receive a financial return on the Group's trading commission equivalent to 64% of total trading commission. The Group shall collect this return and deposit into CMA's account based on its instruction; and
- The Group is entitled to keep 100% of operating revenues (other than trading commission, which is subject to above-mentioned return sharing arrangement).

Further, the Group has an obligation to pay CMA an annual fixed amount of SAR 130 million, in accordance with the Council of CMA resolution No. (17/268/6) dated 18 January 2017.

The Group charges a listing fee on initial subscription fees of listed companies. The Group commenced charging such a fee during the second quarter of the year 2017, in accordance with CMA approval dated 18 January 2017.

19. OPERATING COSTS

Operating costs include direct expenses incurred by the Group to provide services to its customers and the Saudi Financial Market. A breakdown of operating costs is as follows:

For the year ended 31 December	Notes	2018	2017 (Restated)
CMA annual fees		130,000,000	130,000,000
Salaries and related benefits		92,756,391	88,017,099
Consultancy		1,128,959	2,454,167
Maintenance		21,934,036	23,653,293
Depreciation and amortization	5 & 6	21,801,544	24,171,053
Data network lines		11,085,864	10,428,966
Rent		2,854,836	4,167,266
Utilities		1,434,070	1,243,347
Security guards		1,605,473	1,604,149
Hospitality and cleaning		2,005,667	1,533,318
Charge for credit losses on accounts receivables	9.1	3,839,671	1,363,561
SAREE system usage fees		1,162,000	839,000
Communication		694,074	694,898
Business travel		718,223	1,189,501
Training		911,284	1,547,503
Marketing and sponsorship		1,639,797	1,047,357
License fees		860,173	213,378
Shareholder relations		1,111,251	278,457
Others		960,625	1,009,589
		298,503,938	295,466,902

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20. GENERAL AND ADMINISTRATIVE EXPENSES

For the year ended 31 December	Notes	2018	2017 (Restated)
Salaries and related benefits		130,186,615	106,244,356
Consultancy		18,723,914	23,049,853
Maintenance		14,914,314	17,249,964
Depreciation and amortization	5 & 6	10,469,539	6,374,543
Rent		9,515,024	9,639,298
Board of Directors' remuneration and allowances		5,963,239	6,429,875
Security guards		2,073,863	1,614,769
Utilities		1,815,930	1,064,294
Hospitality and cleaning		2,223,833	1,822,485
Communications		808,431	633,024
Business trip		1,354,745	1,663,771
Trading activities insurance contracts		915,026	755,269
Training		4,088,274	5,763,853
Stationery and office supplies		383,773	526,363
Marketing and sponsorship		393,146	3,551,940
License fees		1,758,147	1,239,972
Reversal for impairment on investments	8	(65,573)	–
Others		4,998,037	4,904,751
		210,520,277	192,528,380

21. INVESTMENT INCOME

For the year ended 31 December	Notes	2018	2017
Special commission income		57,918,638	57,731,048
Dividend income		6,859,810	5,890,794
Realised gain on investments		10,679,758	6,864,227
Unrealized gain on investments	8.6	3,753,316	16,702,044
		79,211,522	87,188,113

22. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share is computed by dividing income attributable to the ordinary shareholders of the Company by the weighted average outstanding number of shares for the year ended, totalling 120 million shares (31 December 2018: 120 million shares).

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23. CONTINGENCIES AND COMMITMENTS

Commitments represent the value of the part not yet executed from supply contracts of assets and services to Group as follows:

	31 December 2018	31 December 2017	1 January 2017
Purchase of assets	26,171,655	5,341,315	6,638,330
Committed expenditure	10,291,394	7,194,923	12,931,731
Letter of guarantee	11,300,000	1,147,940	1,147,940
	47,763,049	13,684,178	20,718,001

24. TRANSACTIONS WITH RELATED PARTIES

In the ordinary course of its activities, the Group transacts business with its related parties. Related parties include PIF ("the shareholder"), Tadawul Real Estate Company ("the Associate"), the Group's Board of Directors, and key executives, and other entities, which are under common ownership through PIF ("Affiliates"), or have common Directors on their Board ("Board of Directors"). Transactions are carried out on mutually agreed terms approved by the Management of the Group.

24.1 The significant transactions with related parties in relation to the Group's core activities are as follows:

Nature of relationship	Nature of transactions		Total amount of transactions
	Sales and marketing	Securities depository services	31 December 2018
Affiliates	134,382,829	19,563,135	153,945,964
Board of Directors	61,436,691	–	61,436,691
Board of Directors/affiliates	158,513,539	–	158,513,539
The Associate	–	105,000	105,000

Nature of relationship	Nature of transactions		Total amount of transactions
	Sales and marketing	Securities depository services	31 December 2017
Affiliates	87,028,677	12,587,812	99,616,489
Board of Directors	5,741,559	19,820	5,761,379
Board of Directors/affiliates	162,767,787	4,291,654	167,059,441
The Associate	–	200,000	200,000

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24. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

24.1 (Continued)

The receivables balances arising from the above transactions are as follows:

Nature of relationship	For the year ended 31 December 2018 Opening balance	Invoiced	Collections	Ending balance
Affiliates	2,107,376	153,945,964	(152,918,426)	3,134,914
Board of Directors	8,823	61,436,691	(58,959,062)	2,486,452
Board of Directors/affiliates	2,200,570	158,513,539	(153,758,308)	6,955,801
The Associate	100,000	105,000	(100,000)	105,000
Total	4,416,769	374,001,194	(365,735,796)	12,682,167

Nature of relationship	For the year ended 31 December 2017 Opening balance	Invoiced	Collections	Ending balance
Affiliates	1,119,214	99,616,489	(98,628,327)	2,107,376
Board of Directors	125,674	5,761,379	(5,878,230)	8,823
Board of Directors/affiliates	661,002	167,059,441	(165,519,873)	2,200,570
The Associate	367,297	200,000	(467,297)	100,000
Total	2,273,187	272,637,309	(270,493,727)	4,416,769

Nature of relationship	For the year ended 31 December 2016 Opening balance	Invoiced	Collections	Ending balance
Affiliates	159,734	122,675,509	(121,716,029)	1,119,214
Board of Directors	204,503	9,428,854	(9,507,683)	125,674
Board of Directors/affiliates	523,738	106,890,994	(106,753,730)	661,002
The Associate	893,385	372,948	(899,036)	367,297
Total	1,781,360	239,368,305	(238,876,478)	2,273,187

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24. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

24.2 Other balances with related parties included in investments at "FVTPL"/Held-for-trading investments are as follows:

Nature of relationship	For the year ended 31 December 2018 Opening balance	Purchases/(Disposals)	Unrealized gain	Ending balance
Board of Directors	684,701,766	(544,660,303)	546,907	140,588,370

Nature of relationship	For the year ended 31 December 2017 Opening balance	Purchases/(Disposals)	Unrealized gain	Ending balance
Board of Directors	125,108,631	550,227,893	9,365,242	684,701,766

Nature of relationship	For the year ended 31 December 2016 Opening balance	Purchases/(Disposals)	Unrealized gain	Ending balance
Board of Directors	–	125,000,000	108,631	125,108,631

24.3 Other balances with related parties included within accounts payables are as follows:

Nature of relationship	For the year ended 31 December 2018 Opening balance	Services received	Payments made	Ending balance
Affiliates	4,293,218	12,629,562	(11,410,899)	5,511,881
Board of Directors	1,676,618	5,913,239	(6,147,857)	1,442,000
Total	5,969,836	18,542,801	(17,558,756)	6,953,881

Nature of relationship	For the year ended 31 December 2017 Opening balance	Services received	Payments made	Ending balance
Affiliates	6,860,051	5,546,936	(8,113,769)	4,293,218
Board of Directors	856,978	6,429,876	(5,610,236)	1,676,618
Total	7,717,029	11,976,812	(13,724,005)	5,969,836

Nature of relationship	For the year ended 31 December 2016 (1 January 2017) Opening balance	Services received	Payments made	Ending balance
Affiliates	7,574,729	11,880,162	(12,594,840)	6,860,051
Board of Directors	959,000	4,041,198	(4,143,220)	856,978
Total	8,533,729	15,921,360	(16,738,060)	7,717,029

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24. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

24.4 Other balances with related parties included in investments at amortized cost are as follows:

Nature of relationship	For the year ended 31 December 2018			
	Opening balance	Special commission earned	Collections	Ending balance
The Associate	130,000,000	4,017,433	(4,017,433)	130,000,000

Nature of relationship	For the year ended 31 December 2017			
	Opening balance	Special commission earned	Collections	Ending balance
The Associate	130,000,000	4,017,433	(4,017,433)	130,000,000

Nature of relationship	For the year ended 31 December 2016			
	Opening balance	Special commission earned	Collections	Ending balance
The Associate	130,000,000	4,028,440	(4,028,440)	130,000,000

25. SEGMENT INFORMATION

The Group operates solely in the Kingdom of Saudi Arabia. For management purposes, the Group is organized into business units based on services provided. During 2018, the Group changed its reportable segments and organization chart and all the revenue generating operations have been defined under three segments, Markets, Edaa, and Market Information. The revised segments of the Company are as under:

Markets

This business unit's main objective is to grow business by improving products/services, attracting domestic listings, (in the longer term) foreign listings, and developing new asset classes. The responsibilities include maintaining the integrity, stability, and fairness of stock market operations. Its objective is to achieve outstanding results through operational excellence, collaboration with CMA, cost effectiveness, total customer experience management, and developing a capable workforce.

Edaa

The activities of Edaa include registration of investment portfolios in the filing and settlement system, register and file its ownership, transfer, settlement and clearing its ownership, registering any restriction of ownership on the file securities, and associate with members of the market and settlement agents to filing and settlement system. Further, Edaa links and manages records of securities issuers, organizes general assemblies for issuers including remote voting service for such assemblies, provide reports, notifications and information in addition to providing any other service relating to its activities according to financial market regulations.

Market information

The activities of this segment is to grow business of market information which includes offer high-quality real-time trading data, reference data, market indices, and financial information to the financial community.

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25. SEGMENT INFORMATION (CONTINUED)

Corporate

Corporate manages future corporate development and controls all Treasury related functions. All investments are incubated within this business segment, which also comprise managing strategy for business development, legal, finance, operations, human resources, and customers' relation management.

2018	Markets	Edaa	Market information	Corporate	Total
Operating revenues	224,150,902	298,320,362	60,808,776	–	583,280,040
Operating costs	(134,817,416)	(127,112,580)	(36,573,942)	–	(298,503,938)
General and administrative expenses	–	–	–	(210,520,277)	(210,520,277)
Operations income/(loss)	89,333,486	171,207,782	24,234,834	(210,520,277)	74,255,825
Total assets	18,211,205	566,423,092	4,105,840	2,943,208,846	3,531,948,983
Total liabilities	38,193,598	47,515,248	11,968,083	199,612,855	297,289,784

2017	Markets	Edaa	Market information	Corporate	Total
Operating revenues	197,576,131	284,845,762	63,027,657	–	545,449,550
Operating costs	(128,618,348)	(125,478,924)	(41,369,630)	–	(295,466,902)
General and administrative expenses	–	–	–	(192,528,380)	(192,528,380)
Operations income/(loss)	68,957,783	159,366,838	21,658,027	(192,528,380)	57,454,268
Total assets	17,596,101	563,548,255	4,255,660	2,828,928,177	3,414,328,193
Total liabilities	35,636,821	75,164,789	11,368,303	104,425,488	226,595,401

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

- Market risk;
- Credit risks;
- Operational risk; and
- Liquidity risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring, and managing these risks. Further, quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Board of Directors has an overall responsibility for the establishment and oversight of the Group's risk management framework. The Board is responsible for developing and monitoring the Group's risk management policies. Further, the Board reviews reports from relevant committees in relation to the above on a regular basis.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Risk management structure

A cohesive organisational structure is established within the Group in order to identify, assess, monitor and control risks.

Board of Directors

The apex of risk governance is the centralized oversight of the Board of Directors providing direction and the necessary approvals of strategies and policies in order to achieve defined corporate goals.

Senior Management

Senior Management is responsible for the day-to-day operations towards achieving the strategic goals within the Group's predefined risk appetite.

The risks faced by the Group and the way these risks are mitigated by Management are summarized below:

26.1 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate, because of changes in market prices whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Group limits market risk by maintaining a diversified portfolio and by monitoring the developments in financial markets. Market risk reflects price risk, currency risk, and special commission rate risk.

Price risk

Price risk is the risk that the value of financial instruments will fluctuate due to changes in market prices. The Group's price risk exposure relates to its quoted investments in mutual funds whose values will fluctuate as a result of changes in market prices.

A 1% change in the redemption prices and quoted prices of the investments, with all other variables held constant, would impact the statement of profit or loss as set out below:

For the year ended 31 December	2018	2017
Effect on profit/ loss for the year	13,037,761	12,275,954

The sensitivity analysis prepared is not necessarily indicative of the effects on profit and loss and assets of the Group.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.
The Group is subject to fluctuations in foreign exchange rates in the normal course of its business. The Group did not undertake significant transactions in currencies other than Saudi Arabian Riyals.

Special commission rate risk

The Group's exposure to changes in special commission rate relates primarily to the Group's long-term variable rate debt instruments. Special commission rate risk arises from the possibility that changes in special commission rates will affect future profitability or the fair value of financial instruments. An increase/decrease in special commission rate of 1%, with all other variables held constant, would have resulted in a decrease/increase in profit for the year ended 31 December 2018 by SAR 513,665 (2017: SAR 393,783).

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26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

26.2 Credit risk

Credit risk is the risk of a financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment in debt securities.

The below schedule shows the maximum limit for exposure to credit risk of the consolidated statement of financial position elements:

	31 December 2018	31 December 2017	1 January 2017
Cash and cash equivalents	363,178,918	613,057,827	109,398,138
Investments	1,618,889,453	1,276,626,376	2,508,037,546
Accrued operational revenue	5,709,830	4,445,427	4,029,076
Advance to employees	4,377,876	4,514,536	2,664,701
Account receivables	38,594,342	29,779,949	11,220,892
	2,030,750,419	1,928,424,115	2,635,350,353

Cash and cash equivalents

The Group kept its surplus funds with banks having sound credit rating. Currently the surplus funds are kept with the banks having rating as follows:

STANDARD & POOR'S		FITCH		Moody's	
Long term	Short term	Long term	Short term	Long term	Short term
–	–	A-	F1	A1	P-1
–	–	–	–	A3	P-2
BBB+	A-2	A-	F2	A2	P-1
–	–	BBB+	F2	A3	P-2
		A+	F1	A3	P-2

Account receivables

Account receivables are shown net of allowance for impairment. The Group applies IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance. To measure the expected credit losses, account receivables have been grouped based on the days past due. The historical loss rates adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

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26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

26.2 Credit risk (Continued)

Concentration of credit risk

The following table provides information about the exposure to credit risk and ECLs for receivables for customers as at 31 December 2018.

	Weighted average loss rate (%)	Gross carrying amount	Loss allowance	Credit impaired
0-30 days (not past due)	0.04	33,285,334	14,129	No
30-60 days	1.04	1,555,431	16,174	No
61-90 days	2.24	309,770	6,929	No
91-120 days	2.52	250,501	6,314	No
121-180 days	20.00	856,173	171,235	Yes
181-360 days	50.00	5,103,826	2,551,912	Yes
More than 360 days past due	100.00	3,962,548	3,962,548	Yes
		45,323,583	6,729,241	

26.3 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market, and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

Compliance with the Group's standards is supported by a programme of periodic reviews undertaken by internal audit. The results of internal audit reviews are discussed with the Management of the business unit to which they relate, with summaries submitted to the Audit Committee and Senior Management of the Group.

26.4 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

26.4 Liquidity risk (Continued)

The below schedule shows an analysis of financial assets and liabilities based on the expected date of collection or settlement:

	31 December 2018			31 December 2017			1 January 2017		
	Less than 12 months	More than 12 months	Total	Less than 12 months	More than 12 months	Total	Less than 12 months	More than 12 months	Total
Cash and cash equivalents	363,178,918	–	363,178,918	613,057,827	–	613,057,827	109,398,138	–	109,398,138
Investments	2,616,337,849	306,327,691	2,922,665,540	1,479,115,490	1,113,741,772	2,592,857,262	1,591,008,539	1,452,624,267	3,043,632,806
Account receivables	45,323,583	–	45,323,583	29,779,949	–	29,779,949	11,220,892	–	11,220,892
Accrued operational revenue	5,709,830	–	5,709,830	4,445,427	–	4,445,427	4,029,076		4,029,076
Advance to employees	4,377,876	–	4,377,876	4,514,536	–	4,514,536	2,664,701		2,664,701
Total financial assets	3,034,928,056	306,327,691	3,341,255,747	2,130,913,229	1,113,741,772	3,244,655,001	1,718,321,346	1,452,624,267	3,170,945,613
Account payables	87,268,042	–	87,268,042	51,116,941	–	51,116,941	60,730,640	–	60,730,640
Balance due to CMA	56,661,001	–	56,661,001	11,881,482	–	11,881,482	16,258,958	–	16,258,958
Accrued expenses and other current liabilities	59,136,932	–	59,136,932	48,511,337	–	48,511,337	42,544,926	–	42,544,926
Total financial liabilities	203,065,975	–	203,065,975	111,509,760	–	111,509,760	119,534,524	–	119,534,524
Net financial assets	2,831,862,081	306,327,691	3,138,189,772	2,019,403,469	1,113,741,772	3,133,145,241	1,598,786,822	1,452,624,267	3,051,411,089

27. FAIR VALUE OF FINANCIAL INSTRUMENTS

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. Underlying the definition of fair value is the presumption that the Group is a going concern and there is no intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

When measuring the fair value the Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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(Saudi Arabian Riyals)

27. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value as the carrying amount of the remaining financial assets and financial liabilities is a reasonable approximation of fair value.

	31 December 2018				
	Carrying value	Fair value Level 1	Fair value Level 2	Fair value Level 3	Total fair value
Investments					
FVTPL	1,303,776,087	1,228,320,127	75,455,960	–	1,303,776,087

	31 December 2017				
	Carrying value	Fair value Level 1	Fair value Level 2	Fair value Level 3	Total fair value
Investments					
Held for trading	1,227,595,478	1,227,595,478	–	–	1,227,595,478
Available for sale	88,635,408	–	88,635,408	–	88,635,408
	1,316,230,886	1,227,595,478	88,635,408	–	1,316,230,886

	1 January 2017				
	Carrying value	Fair value Level 1	Fair value Level 2	Fair value Level 3	Total fair value
Investments					
Held for trading	459,476,968	459,476,968	–	–	459,476,968
Available for sale	76,118,292	–	76,118,292	–	76,118,292
	535,595,260	459,476,968	76,118,292	–	535,595,260

There were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements were made during the year ended 31 December 2018.

Notes to the consolidated financial statements

For the year ended 31 December 2018
(Saudi Arabian Riyals)

28. COMPARATIVE FIGURES

Certain prior period figures have been reclassified to conform with current year presentation.

The items were reclassified as follows:

	For the year ended 31 December 2017	
	Before reclassification (Note 4.2)	After reclassification
Description		
Operating costs	287,157,870	295,466,902
General and administrative expenses	200,837,412	192,528,380

29. DIVIDEND

The Ordinary General Assembly meeting held on 27 Ramadan 1439 H (corresponding to 11 June 2018) approved the payment of dividend to shareholders for the year ended 31 December 2017 amounting to SAR 120,000,000 (for the year ended 31 December 2016: SAR 90,000,000).

30. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been approved by the Board of Directors on 20 April 2019.

Glossary of stock market terms

All Share Index (ALSI)
An index designed to reflect the movement of the equity market.

Arbitrage
Buying and selling the same security on different markets and at different prices.

Ask price
The price at which a trader is willing to sell a security.

Available securities
Securities available for carrying out transactions which includes securities which have been purchased but not settled to client account.

Bear market
When a market as a whole is on a downward trend of falling prices.

Bid price
The price a trader is willing to pay for a given share.

BiS DvP model 2
A mechanism where transfer of securities from seller to buyer occurs on a trade by trade basis but transfer of cash from buyer to seller occurs on a net basis.

Blue chip stocks
Stocks of large leading industry companies which have a stable record of dividend payments and have a reputation of sound fiscal management.

Borrowing agent
A custody member appointed by borrower for conducting transactions.

Bull market
When a market as a whole is on a prolonged period of increasing prices.

Cash prefunding requirement
A trading system where the buyer of a security has to deposit cash in advance of the trade.

Central Securities Depository (CSD)
A specialist financial institution holding securities either in certificated or uncertificated form, so that ownership can be transferred through a book entry rather than physical transfer of certificates.

Clearing
All activities pertaining to a security being traded from the moment a commitment is made regarding a transaction to the moment it is settled.

Closing Price – Volume weighted average method
The VWAP is an average calculated by taking the value of all trades in the last 15 minutes before the market close divided by the total traded shares of the company. If no trades occurred during the last 15 minutes the closing price will be the last normal price (trades above SAR 15,000) before the last 15 minutes.

Closing price-Auction method
In this method the closing price is set by an auction that takes place until 10 minutes after the close of normal trading. An equilibrium price is set during the closing auction on normal trades (trades over SAR 15,000). If there are no normal trades during auction the closing auction becomes the last traded price. If there are no trades during the day, the closing price becomes the previous day's closing price.

Custodian
A financial institution that holds customers securities for safeguarding to minimize the risk of their theft or loss. It can also be a clearing member for banks, corporations, foreign investors and institutional investors. They clear the trade by ensuring pay-in/pay-out of securities.

Depository system
IT system used by stock markets to facilitation of clearing, settlement, safekeeping and registry functions.

Derivative
A security or financial instrument whose value is determined by an underlying asset.

DvP
A settlement mechanism that links a securities transfer and a funds transfer in such a way that transfer occurs only if the payment occurs.

Exchange member
A member of an exchange providing trading services for investors.

Exchange Traded Funds (ETF)
A fund made up of a portfolio of shares that reflect the composition of an index. The fund is listed on a recognized exchange and trades like a normal security.

Exchange Traded Products (ETPs)
Securities that are traded on a stock exchange, the value of which is derived from underlying instruments like commodities, currencies, share prices or interest rates.

Execution broker
An exchange member providing trading services in deposited securities, custody services for which are provided by an independent custody member.

Failed trade
This occurs when a seller does not deliver securities or a buyer does not make payment by the settlement date.

Forward contract
This is similar to a futures contract except that it is privately negotiated.

Free float
The proportion of shares of a publicly traded company traded on a stock market.

Futures contract
A contractual agreement, to buy or sell a particular a particular commodity or financial instrument at a predetermined price in the future.

Global Industry Classification Standard (GICS)
A standard classification system for equities developed jointly by Morgan Stanley Capital (MSCI) and Standard and Poor's.

Hedge
A derivative instrument to protect an investment from unfavourable changes in value.

Independent custody member
A custody member providing custody services if trading services are provided by an execution broker.

Index
A simulated portfolio of securities that represents a market or a portion of that market.

Insider trading
Buying or selling a security when having access to non-public information about that security.

Inventory
Securities balance of an investor's account free of pledge and other restrictions.

Lending agent
A custody member appointed by lender for conducting securities borrowing and lending transactions.

Limit order
An order to buy and sell stock at a specified price. This will set the maximum price a client is willing to pay as a buyer and the minimum price he is willing to accept as a seller.

Liquidity
How easily securities can be bought or sold on the market. A security is liquid if there are units available for large transactions to take place without substantial changes in price.

Liquidity risk
The risk that arises from the difficulty in buying or selling a security.

Long fail
When a buyer cannot pay for securities within a specified period.

Maintenance margin
In the context of margin trading this is the minimum amount of equity that should be in the margin account. Equity is the total value of securities minus what has been borrowed from the brokerage firm.

Margin account
This allows a person to borrow money from a broker to purchase securities. The customer will deposit money in the margin account and the broker will loan additional funds and the total could be used to purchase stock. This could be advantageous for the customer if the stock price appreciates. However, if the price declines the broker could require that the customer deposits additional funds within a short period or sell a portion of stock to offset all or a part of the difference between the security's value and maintenance margin.

Market abuse
Securities law violations including insider trading, market manipulation or money laundering.

Market maker
A member firm of an exchange that buys and securities for its own account (principal trades) and for customer accounts (agency trades) and who promotes liquidity in the market.

Member
An individual or corporate body who has the right to trade in securities on an exchange on behalf on investors.

Option
The right (but not the obligation) to buy (a call option) or sell (a put option), a given amount of stock, commodity, currency, index or debt at a specified price (the strike price) during a specified period of time.

Options contract
A financial derivative representing a contract by the option writer to the option holder.

Order placement
If an order is not rejected at pre-order stage it is placed in the order book.

Over-the –Counter (OTC)
A security traded in some context other than a formal exchange, such as a dealer network.

Par value
The nominal value assigned to a security by the issuer.

Pre-market trading
Trading done before regular trading hours.

Pre-order checks
Checks that an exchange member performs before sending an order to the trading system.

Post-market trading
Trading done after regular trading hours.

Rebalancing
The process of realigning the weightings of a portfolio of assets, by buying and selling, to maintain a desired level of asset allocation. It is often done on a quarterly basis.

Securities Depository Centre (SDC)
An entity that performs registry functions and safekeeping functions, security settlement and cash netting.

Securities Borrowing and Lending (SBL)
A collateralized loan of securities from one party (lender) of transaction to another party (borrower).

Securities pending-in
Securities bought by the investor but not yet settled.

Securities pending-out
Securities sold by the investor but not yet settled.

Settlement failure
This occurs if the exchange member was unable to provide the securities needed.

Settlement member
A Bank nominated by the custody member to facilitate cash settlement for this custody member.

Shareholder register
A list of a company's shareholders updated on an ongoing basis. The register includes each person's name, address and the number of shares owned.

Short selling
The practice of borrowing shares with the idea of returning them later. This is usually done when it is believed that the shares will fall in price, as the borrower could make a profit by selling the shares now and returning at a lower price.

Spread
The difference between the bid and the ask prices of a share; the difference between what a buyer is willing to pay and the seller is willing to sell.

Trade execution
When an order is matched with another order a trade is executed.

Volatility
The price movements of a stock or a market as a whole.

Acronyms

CCP : Central Counterparty Clearing House
CMA : Capital Market Authority
DvP : Delivery vs. Payment Model
EBITDA : Earnings before interest, tax, depreciation, and amortisation
ETF : Exchange Traded Fund
FSDP : Financial Sector Development Program
GCC : Gulf Cooperation Council
GICS : Global Industry Classification Standard
ICM : Independent Custody Model
REIT : Real Estate Investment Traded Funds
QFI : Qualified Foreign Investor
SSE : Sustainable Stock Exchanges
TAR : Transition and Activation of Responsibilities Project

Corporate information

Name

Saudi Stock Exchange Company (Tadawul)

Registered logo

Legal form

The Saudi Stock Exchange (Tadawul) was formed on 19 March 2007 as a joint stock company in accordance with article 20 of the Capital Market Law. Tadawul is the sole entity in the Kingdom authorized to act as a securities exchange.

Subsidiary companies

Name of Subsidiary	Ownership	Country of operation	Country of establishment
Edaa (Securities Depository Centre Company)	100%	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia
Muqassa (Central Counterparty Clearing House)	100%	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia

Auditors

KPMG Al Fozan & Partners

Head office/Registered office

Saudi Stock Exchange (Tadawul)
6897 King Fahd Road - Al Ulaya
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Kingdom of Saudi Arabia

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