

**EMAAR THE ECONOMIC CITY
(A SAUDI JOINT STOCK COMPANY)**

**UNAUDITED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

31 DECEMBER 2016



Building a better
working world

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LIMITED REVIEW REPORT TO THE SHAREHOLDERS OF EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY) ON THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Scope of review

We have reviewed the accompanying consolidated balance sheet of Emaar The Economic City - a Saudi Joint Stock Company - ("the Company" or "the Parent Company") and its subsidiaries (the "Group") as at 31 December 2016 and the related consolidated statement of income for the three-month and twelve-month periods then ended, and the related consolidated statements of cash flows and changes in shareholders' equity for the twelve-month period then ended. These interim consolidated financial statements are the responsibility of the Company's management and have been prepared by them and submitted to us together with all the information and explanations which we required. We conducted our limited review in accordance with the Saudi Organization for Certified Public Accountants' standard on interim financial reporting. A limited review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion on the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Conclusion

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

for Ernst & Young

Ahmed T. Reda
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18 January 2017

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Emaar The Economic City (A Saudi Joint Stock Company)

CONSOLIDATED BALANCE SHEET

At 31 December 2016

	Note	2016 SR'000 (Unaudited)	2015 SR'000 (Audited)
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		1,177,396	1,898,851
Murabaha term deposits with banks		997,000	1,012,979
Accounts receivable and other current assets		578,367	358,322
Development properties		1,549,948	1,575,841
Current portion of employees' receivable - Home Ownership Scheme		4,121	2,126
TOTAL CURRENT ASSETS		4,306,832	4,848,119
NON-CURRENT ASSETS			
Investment properties	4	4,997,076	5,217,389
Property and equipment	5	7,035,435	5,495,223
Investment in equity accounted investees	6	2,389,458	2,345,651
Employees' receivable - Home Ownership Scheme		69,774	34,530
Other long term receivable	11(b)	48,119	-
Deferred costs		4,602	5,857
TOTAL NON-CURRENT ASSETS		14,544,464	13,098,650
Assets classified as held for disposal	7	-	90,891
TOTAL ASSETS		18,851,296	18,037,660
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITY			
Accounts payable and accruals	8	1,165,059	889,962
NON-CURRENT LIABILITIES			
Long term loans	9	7,500,000	7,100,000
Deferred contribution		1,523,924	1,496,629
Long-term provision		5,099	5,099
Employees' terminal benefits		32,105	23,117
Unearned interest income - Home Ownership Scheme		14,336	6,158
TOTAL NON-CURRENT LIABILITIES		9,075,464	8,631,003
TOTAL LIABILITIES		10,240,523	9,520,965
SHAREHOLDERS' EQUITY			
Share capital		8,500,000	8,500,000
Statutory reserve		18,247	1,869
Retained earnings		96,181	16,820
Effect of reducing the ownership percentage in a subsidiary		(86)	(86)
Total equity attributable to the shareholders of the Parent Company		8,614,342	8,518,603
Non-controlling interests		(3,569)	(1,908)
TOTAL SHAREHOLDERS' EQUITY		8,610,773	8,516,695
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		18,851,296	18,037,660

The attached notes 1 to 15 form part of these unaudited interim consolidated financial statements.

Emaar The Economic City (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME

For the three-month and twelve-month periods ended 31 December 2016

	<i>For the three-month period ended 31 December</i>		<i>For the twelve-month period ended 31 December</i>	
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
<i>Note</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Audited)</i>
Revenue	444,754	386,826	1,139,827	1,022,957
Cost of revenue	(152,246)	(210,166)	(672,909)	(456,184)
GROSS PROFIT	292,508	176,660	466,918	566,773
EXPENSES				
Selling and marketing	(68,041)	(34,544)	(121,687)	(89,746)
General and administration	(92,152)	(65,583)	(288,001)	(193,570)
Impairment loss	-	(4,643)	(44,016)	(15,803)
Land contribution	7	88,509	-	84,237
Depreciation, net	4(b)	(19,873)	(56,689)	(32,289)
Amortisation		(314)	(1,255)	(1,256)
INCOME / (LOSS) FROM MAIN OPERATIONS	112,128	150,749	(44,730)	318,346
OTHER INCOME / (EXPENSES)				
Financial charges	(20,583)	(10,541)	(82,017)	(46,417)
Share of results of equity accounted investees	6	(1,039)	3,878	7,566
Murabaha deposit income		7,613	51,332	21,868
Other income	11	24,911	8,838	191,476
INCOME BEFORE ZAKAT AND INCOME TAX AND NON-CONTROLLING INTERESTS	126,206	160,537	114,078	329,886
Zakat and income tax	10	1,525	(2,225)	(28,584)
INCOME BEFORE NON-CONTROLLING INTERESTS	127,731	158,312	94,078	301,302
Loss attributable to non-controlling interests		35	136	1,415
NET INCOME FOR THE PERIOD	127,766	158,448	95,739	302,717
EARNINGS / (LOSS) PER SHARE				
Weighted average number of ordinary shares outstanding (in thousand)	850,000	850,000	850,000	850,000
Earnings / (loss) per share on income / (loss) from main operations (in SR per share)	12	0.13	0.18	(0.05)
Earnings per share on net income for the period (in SR per share)	12	0.15	0.19	0.11

The attached notes 1 to 15 form part of these unaudited interim consolidated financial statements.

Emaar The Economic City (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the twelve-month period ended 31 December 2016

	2016 SR'000 (Unaudited)	2015 SR'000 (Audited)
OPERATING ACTIVITIES		
Income before zakat and income tax and non-controlling interests	114,078	329,886
Adjustments for:		
Depreciation	130,156	88,738
Impairment loss	44,016	15,803
Amortisation	1,255	1,256
Provision for employees' terminal benefits	10,648	6,851
Financial charges	82,017	46,417
Share of results of an equity accounted investees	1,983	(7,566)
Murabaha deposit income	(51,332)	(21,868)
Land contribution	-	(84,237)
Unwinding of unearned interest income – Home Ownership Scheme	(1,326)	(984)
Employee benefit expense – Home Ownership Scheme	14,288	3,914
Provision for doubtful debts	18,545	9,915
Loss on disposal of property and equipment	296	-
Profit elimination on sale of land to an equity accounted investee	8,165	-
	<u>372,789</u>	<u>388,125</u>
Changes in operating assets and liabilities:		
Accounts receivable and other assets	(292,344)	(137,297)
Development properties	79,922	(240,978)
Accounts payable and accruals	228,740	(41,439)
Employees' receivable – Home Ownership Scheme	21,771	(36,656)
	<u>410,878</u>	<u>(68,245)</u>
Cash from / (used in) operations	410,878	(68,245)
Net movement in deferred contribution	105,418	595,140
Financial charges paid	(191,253)	(463,102)
Employees' terminal benefits paid	(1,660)	(724)
Zakat paid	(20,944)	(55,612)
	<u>302,439</u>	<u>7,457</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(1,443,334)	(1,301,264)
Net movement in murabaha term deposits with banks	15,979	(140,294)
Murabaha deposit income	53,052	20,330
Net movement in investment properties	(43,415)	(50,322)
Investment in an equity accounted investee	(53,955)	-
Proceeds from disposal of property and equipment	904	-
Proceeds from sale of assets classified as held for disposal	46,875	-
	<u>(1,423,894)</u>	<u>(1,471,550)</u>
Net cash used in investing activities	(1,423,894)	(1,471,550)
FINANCING ACTIVITY		
Net movement in long term loans	400,000	1,350,000
	<u>400,000</u>	<u>1,350,000</u>
Net cash from financing activity	400,000	1,350,000
DECREASE IN CASH AND CASH EQUIVALENTS	(721,455)	(114,093)
Cash and cash equivalents at the beginning of the period	1,898,851	2,012,944
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>1,177,396</u>	<u>1,898,851</u>

The attached notes 1 to 15 form part of these unaudited interim consolidated financial statements.

Emaar The Economic City (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the twelve-month period ended 31 December 2016

EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY

	<i>Share capital SR'000</i>	<i>Statutory reserve SR'000</i>	<i>Retained earnings / (accumulated losses) SR'000</i>	<i>Effect of reducing ownership percentage in a subsidiary SR'000</i>	<i>Total SR'000</i>
Balance at 31 December 2015 (audited)	8,500,000	1,869	16,820	(86)	8,518,603
Net income for the twelve-month period ended 31 December 2016	-	-	95,739	-	95,739
Transfer to statutory reserve	-	16,378	(16,378)	-	-
Balance at 31 December 2016 (unaudited)	<u>8,500,000</u>	<u>18,247</u>	<u>96,181</u>	<u>(86)</u>	<u>8,614,342</u>
Balance at 31 December 2014 (audited)	8,500,000	-	(284,028)	(86)	8,215,886
Net income for the twelve-month period ended 31 December 2015	-	-	302,717	-	302,717
Transfer to statutory reserve	-	1,869	(1,869)	-	-
Balance at 31 December 2015 (audited)	<u>8,500,000</u>	<u>1,869</u>	<u>16,820</u>	<u>(86)</u>	<u>8,518,603</u>



The attached notes 1 to 15 form part of these unaudited interim consolidated financial statements.



Emaar The Economic City (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

1 ACTIVITIES

Emaar The Economic City ("the Company" or "the Parent Company") is a Saudi Joint Stock Company incorporated and operating in the Kingdom of Saudi Arabia under Ministerial Decision No. 2533, dated 3 Ramadan 1427H, corresponding to 21 September 2006. The Company obtained its initial Commercial Registration No. 4030164269 on 8 Ramadan 1427H, corresponding to 26 September 2006. The registered office of the Parent Company has been shifted to Rabigh with a revised Commercial Registration No. 4602005884, dated 6 Rabi' I 1436H, corresponding to 28 December 2014.

The Parent Company is engaged in the development of real estate in the economic or other zones and other development activities including infrastructures, promotion, marketing and sale of land within development areas, transfer/lease of land, development of buildings/housing units, and construction on behalf of other parties. The main activity of the Company is the development of the King Abdullah Economic City (KAEC).

2 BASIS OF PREPARATION AND CONSOLIDATION

2.1 BASIS OF PREPARATION

The interim consolidated financial statements have been prepared in accordance with the Saudi Accounting Standard for interim financial information issued by the Saudi Organization for Certified Public Accountants ("SOCPA"). The interim consolidated financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

The interim consolidated financial statements are expressed in Saudi Riyals, being the functional currency of the Parent Company and its subsidiaries, and have been rounded off to the nearest thousand, unless otherwise specified.

The results presented in the interim consolidated financial statements may not be an accurate indicator of the annual financial result.

2.2 BASIS OF CONSOLIDATION

The interim consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries (collectively "the Group"), after elimination of all material inter-group transactions and balances.

The Company has investments in the following subsidiaries, which are primarily involved in development, investments, marketing, sale/lease, operations and maintenance of properties, providing higher education and establishment of companies.

<i>Name</i>	<i>Country of incorporation</i>	<i>Year of incorporation</i>	<i>% of capital held (directly or indirectly)</i>	
			2016	2015
Economic Cities Investments Holding Company ("ECIHC")	Saudi Arabia	2010	99%	99%
Industrial Zones Development Company Limited ("IZDCL")	Saudi Arabia	2011	98%	98%
Economic Cities Real Estate Properties Operation and Management Company Limited ("REOM")	Saudi Arabia	2013	98%	98%
Economic Cities Pioneer Real Estate Management Company Limited ("REM")	Saudi Arabia	2013	98%	98%
Economic Cities Real Estate Development Company Limited ("RED")	Saudi Arabia	2013	98%	98%
Emaar Knowledge Company Limited ("EKC") (see note below)	Saudi Arabia	2015	100%	100%

During the year ended 31 December 2015, the Parent Company invested SR 9.6 million that represents 96% of the capital of EKC. The balance 4% is owned by subsidiaries of the Parent Company.

Emaar The Economic City (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued) At 31 December 2016

2 BASIS OF PREPARATION AND CONSOLIDATION (continued)

2.2 BASIS OF CONSOLIDATION (continued)

Subsidiary

Subsidiary is a company in which the Group has, directly or indirectly, long term investment comprising an interest of more than 50% in the voting capital or over which it exerts control. Subsidiaries are consolidated from the date the Group obtains control until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full on consolidation.

Non-controlling interests represent the portion of profit or loss and net assets that are not held by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet, separately from the Parent Company's shareholders' equity.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted by the Group for the preparation of the interim consolidated financial statements are in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia and are consistent with those used for the preparation of the annual financial statements for the year ended 31 December 2015.

The interim consolidated financial statements have been prepared under the historical cost convention on the accrual basis of accounting, modified by the adjustment for arriving at the net present value of the Employees' receivable - Home Ownership Scheme and to include the measurement at fair value of assets classified as held for disposal.

The significant accounting policies adopted are as follows:

Use of estimate

The preparation of interim consolidated financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash with banks and other short-term highly liquid investments, if any, with original maturities of three months or less.

Murabaha term deposits with banks

Murabaha term deposits with banks include placements with banks with original maturities of more than three months and less than one year from the placement date. Income on Murabaha term deposits with banks is recognised on an effective yield basis.

Accounts receivable

Accounts receivable are stated at original invoice amount less provision for any uncollectible amounts. An estimate for doubtful accounts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred. Any subsequent recoveries of amounts previously written-off are credited in the consolidated statement of income.

Development properties

Properties acquired, constructed or in the course of construction and development for sale are classified as development properties. Unsold properties are stated at the lower of cost and net realizable value. Sold properties in the course of development are stated at cost plus attributable profit less progress billings. The cost of development properties includes the cost of land and other related expenditure which is transferred to development properties as and when activities that are necessary to get the properties ready for sale are in progress. Net realizable value represents the estimated selling price less cost of completion and costs to be incurred in selling the property.

The property is considered to be completed when all related activities, including the infrastructure and facilities for the entire project, have been completed and handed over and title is transferred. At that stage, cost, attributable profit/loss and progress billings are eliminated from development properties. Management reviews the carrying values of the development properties at each reporting date.

Emaar The Economic City (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Properties held for rental or capital appreciation purposes as well as those held for undetermined future use are classified as investment properties. Investment properties are carried at cost less accumulated depreciation and impairment losses, if any. Investment properties include buildings which are depreciated on a straight line basis over the estimated useful life of 30 years.

Properties are transferred from investment properties to development properties, when and only when, there is a change in use, evidenced by commencement of development with a view to sell. Such transfers are made at the carrying value of the properties at the date of transfer.

Investment in an equity accounted investee

The Group's investment in an equity accounted investee represents investment in those entities over whose activities the Group has joint control, established by contractual arrangements and requiring unanimous consent for strategic financial and operating decisions. This also includes those entities in which the Group has significant influence, but not control, over the financial and operating policies, generally accompanying a shareholding between 20% and 50% of the voting rights.

Investment in equity accounted investee is accounted for using the equity method of accounting together with any long-term interests that, in substance, form part of the investor's net investment in the equity accounted investee. Under the equity method, the investment in the equity accounted investee is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the equity accounted investee less dividend and impairment loss, if any.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of Group's investment is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an equity accounted investee.

Employee Home Ownership Scheme

In accordance with the Group's policy, the Group sells the built units to employees under interest free finance lease arrangement for a period of twenty years. The employee is entitled to continue in the scheme, even after retirement / resignation or termination from the Company. The gross value of the lease payments is recognized as a receivable under employee home ownership scheme. The difference between the gross receivable and the present value of the receivable is recognized as an unearned interest income with a corresponding impact in the consolidated statement of income as an employee benefit expense. Interest income is recognized in the consolidated statement of income over the term of the lease using the effective rate of interest. In case of cancellation of the employee home ownership contract by the employee, the amount paid by the employee under the scheme is forfeited and recognized in the consolidated statement of income.

Deferred Costs

Deferred costs includes all costs and expenses having future economic benefits. Such costs are amortized using straight-line method over the related economic benefit periods not exceeding seven years.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation and any impairment in value. The cost less estimated residual value of property and equipment is depreciated on a straight line basis over the estimated useful lives of the assets.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Expenditure for repair and maintenance are charged to consolidated statement of income. Improvements that increase the value or materially extend the life of the related assets are capitalised.

Capital work-in-progress is measured at cost less impairment losses, if any, and not depreciated until such time the assets are ready for intended use and transferred to the respective category under property and equipment.

Emaar The Economic City (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowings

Borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, commission bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

Non-current assets held for disposal

Non-current assets that are classified as held for disposal are measured at the lower of their carrying amount and fair value less costs to sell. Assets are transferred to non-current assets held for disposal when it is expected that the carrying amount will be recovered principally through disposal rather than from continuing use. For this to be the case, the asset must be available for immediate disposal in its present condition subject only to terms that are usual and customary for disposals of such assets and its disposal must be highly probable.

Accounts payable and accruals

Liabilities are recognised for amounts to be paid for goods and services received, whether or not billed to the Group.

Provisions

Provisions are recognised when the Group has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and may be measured reliably.

Zakat and income tax

The Parent Company is subject to the Regulations of the General Authority of Zakat and Tax ("GAZT") in the Kingdom of Saudi Arabia. Zakat and income tax are determined based on effective ownership interest reflected in the register of shareholders in the capital market at the end of the period. Zakat and income tax estimates are provided for on an accruals basis and charged to the consolidated statement of income. The zakat charge is computed at 2.5% on the zakat base or adjusted net income, whichever is higher while income tax relating to the non-GCC ownership is provided for based on share of assessable profit at 20%. Additional amounts, if any, that may become due on finalization of an assessment are accounted for in the year in which the assessment is finalized.

The Group withhold taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian income tax law.

Deferred contribution

Deferred contribution represents amounts received from customers in respect of infrastructure assets, which are recognised as an obligation to provide access to the properties sold. The obligation, which is measured with reference to the contributions received, is then amortised over the useful life of the infrastructure assets for the portion that relates to infrastructure assets and the contributions that relates to the land is recognised as revenue upon transfer of land title.

Employees' terminal benefits

Provision is made for amounts payable under the Saudi Arabian labour law applicable to employees' accumulated years of service at the balance sheet date. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should his services be terminated at the consolidated balance sheet date.

Revenue recognition

Revenue represents fair value of the consideration received or the contractually defined terms of payment. Revenue is recognized when it is probable that the economic benefits will flow to the Group, the cost incurred to date and expected future costs are identifiable and can be measured reliably and the amount of revenue can be measured reliably. The specific recognition criteria described below must also be met before the revenue is recognized.

Sale of property

Revenue on sale of plots of land is recognized on the basis of the full accrual method as and when all of the following conditions are met:

- (a) a sale is consummated and contracts are signed;
- (b) the buyer's investment, to the date of the interim consolidated financial statements, is adequate to demonstrate a commitment to pay for the property;
- (c) the Group's receivable is not subject to future subordination;
- (d) the Group has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property; and
- (e) work to be completed is both easily measurable and accrued or is not significant in relation to the overall value of the contract.

Emaar The Economic City (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue on sale of apartments and villas is recognized on the basis of percentage of completion as and when all of the following conditions are met:

- i) the buyer's investment, to the date of the interim consolidated financial statements, is adequate (20% and above) to demonstrate a commitment to pay for the property;
- ii) construction is beyond a preliminary stage. The engineering, design work, construction contract execution, site clearance and building foundation are finished;
- iii) the buyer is committed; the buyer is unable to claim a refund except for non-delivery of the unit; and
- iv) the aggregate sales proceeds and costs can be reasonably estimated.

Rental income

Rental income from investment properties is accounted for on a straight-line basis over the lease term.

Service revenue

Revenue from rendering of services is recognized when the outcome of the transaction can be estimated reliably, by reference to the stage of completion of the transaction at the consolidated balance sheet date

Hospitality revenue

Revenue from hotel accommodation, food and beverages and other related services are recognised, net of discount and municipality fees on an accrual basis when the services are rendered.

School revenue

Tuition, registration and other fees are recognized as income on an accrual basis.

Costs of revenue

Costs of revenue includes the cost of land, development and other service related costs, including cost of construction.

The costs of revenues in respect of sold apartments and villas is based on the proportion of the development cost incurred to-date to the estimated total development costs for each project.

The costs of revenues in respect of land sales includes cost of land.

The costs of revenues in respect of hotel and school is based on actual cost of providing the services.

Borrowing costs

Borrowing costs that are directly attributable to the construction of an asset are capitalised using capitalisation rate up to the stage when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed and, thereafter, such costs are charged to the consolidated statement of income. In case of specific borrowings, all such costs, directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currency transactions

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses, resulting from the settlement of such transactions and from the translation at the period-end exchange rates of monetary assets and liabilities, denominated in foreign currencies, are recognized in the consolidated statement of income.

Non-monetary items measured at historical cost denominated in a foreign currency are translated at the exchange rate at the date of initial recognition.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense is not offset in the consolidated statement of income unless required or permitted by the generally accepted accounting principles in the Kingdom of Saudi Arabia.

Emaar The Economic City (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments.

4 INVESTMENT PROPERTIES

- a) Investment properties include Greenfield land and associated costs amounting to SR 3,036 million (2015: SR 3,036 million), and properties completed and under construction amounting to SR 1,962 million (2015: SR 2,181 million).
- b) During the year 2013, the Board of Directors of the Company had resolved to provide a land amounting to SR 88.5 million to a government body free of cost for the development of automotive cluster in KAEC. However, during the year 2015, the automotive cluster project was relocated and will no longer be hosted in KAEC. Consequently the land provided during the year 2013, has been recorded and will be used by the Group in its future projects.

5 PROPERTY AND EQUIPMENT

Property and equipment mainly include capital work in progress, amounting to SR 3,613 million (2015: SR 2,771 million), which represents construction costs in respect of the development of infrastructure and other projects; and infrastructure assets, amounting to SR 2,389 million (2015: SR 1,827 million).

6 INVESTMENT IN EQUITY ACCOUNTED INVESTEEES

	2016 SR'000 (Unaudited)	2015 SR'000 (Audited)
Investment in Port Development Company ("PDC") (see note (i) below)	2,343,668	2,345,651
Investment in Biyoutat Progressive Company for Real Estate Investment & Development ("Biyoutat") (see note (ii) below)	45,790	-
	<u>2,389,458</u>	<u>2,345,651</u>

i) Investment in PDC

On 14 Jumada Awal 1431H (corresponding to 29 April 2010), PDC, a Closed Joint Stock Company, was incorporated in the Kingdom of Saudi Arabia, which is engaged in development, operation and maintenance of the King Abdullah Port at KAEC (the Port). During 2011, the shareholders of PDC entered into an agreement, whereby, the shareholding structure and funding mechanism of PDC was agreed. As per the terms of the agreement, the Company's shareholding in PDC was agreed to be 34%.

In 2012, to contribute a part of the equity funding under the agreement, the Parent Company invested SR 145 million in the form of land, infrastructure and other development cost.

On 8 October 2013, the shareholders of PDC resolved to increase the shareholding of the Parent Company to 74%. The shareholders further amended the agreement on 16 April 2014, reducing the shareholding of the Parent Company in PDC to 51%. On 17 July 2014, the shareholders of PDC amended the agreement, reducing the shareholding of Parent Company to 50%. Pursuant to the terms of the revised agreement, the shareholders of PDC have concluded that they have joint control over PDC and hence the management of the Company has classified the investment as "Investment in an equity accounted investee".

The Company had provided a corporate guarantee to a commercial bank, amounting to SR 269 million, limited to its revised shareholding percentage in PDC, to allow PDC to secure Shariah compliant commodity Murabaha facility to partially finance the construction costs of the Port. Furthermore, during the year ended 31 December 2015, the Company had provided an additional corporate guarantee to a commercial bank, amounting to SR 500 million, limited to its shareholding percentage in PDC, to allow PDC to secure Shariah compliant commodity Murabaha facility.

Emaar The Economic City (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

6 INVESTMENT IN EQUITY ACCOUNTED INVESTEEES (continued)

i) Investment in PDC (continued)

The movement in the investment in PDC during the twelve-month period is as follows:

	<i>2016</i> <i>SR'000</i> <i>(Unaudited)</i>	<i>2015</i> <i>SR'000</i> <i>(Audited)</i>
Investment	2,487,520	2,487,520
Purchase of shares from other shareholders	117,480	117,480
	<u>2,605,000</u>	<u>2,605,000</u>
Share of results of an equity accounted investee		
At 1 January	28,365	20,800
Share of results for the period	(1,983)	7,565
	<u>26,382</u>	<u>28,365</u>
At 31 December	26,382	28,365
Elimination of share of profit on sale of land and commission income from an equity accounted investee	(287,714)	(287,714)
	<u>2,343,668</u>	<u>2,345,651</u>

ii) Investment in Biyouat

During the twelve-month period ended 31 Dec 2016, the Company has entered into an arrangement with an entity owned by a Saudi local group to incorporate a new entity, namely Biyouat, a limited liability company, to build, own and manage a residential compound at KAEC.

The Company owns 20% shares in the share capital of Biyouat. As per the Shareholders' agreement, the Company has also made an additional investment of SR 54 million for the development of the project. Furthermore, during the period, the Company has sold a piece of land to Biyouat, amounting to SR 54 million.

The movement in the investment in Biyouat during the twelve-month period is as follows:

	<i>2016</i> <i>SR'000</i> <i>(Unaudited)</i>	<i>2015</i> <i>SR'000</i> <i>(Audited)</i>
Initial investment	200	-
Additional investment	53,755	-
Elimination of share of profit on sale of land	(8,165)	-
	<u>45,790</u>	<u>-</u>

7 ASSETS CLASSIFIED AS HELD FOR DISPOSAL

In previous years, the Group identified certain assets, which are to be disposed off in line with the strategic business plans of the Group. Accordingly, these assets were classified as held for disposal. During the three-month period ended 31 March 2016, these assets have been reviewed for impairment. Based on this review, an impairment of SR 44 million (2015: SR 10.40 million) has been recognised in the consolidated statement of income. During three-month ended 30 September 2016, these assets were completely disposed off at their carrying amounts, resulting in no gain or loss.

Emaar The Economic City (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

8 ACCOUNTS PAYABLE AND ACCRUALS

	2016 SR'000 (Unaudited)	2015 SR'000 (Audited)
Trade accounts payable	115,190	124,912
Retentions payable	225,168	169,295
Amounts due to related parties	2,208	2,208
Amounts to be donated for charitable purposes (see note below)	60,374	66,756
Advances from customers	87,953	207,358
Accrued expenses and other payables	146,729	122,354
Contract cost accruals	375,976	91,975
Zakat payable (note 10)	29,319	30,263
Accrued financial charges	120,585	74,153
Unearned interest income - Home Ownership Scheme	1,557	688
	<u>1,165,059</u>	<u>889,962</u>

The Board of Directors decided in 2006 to donate the amount earned on the founding shareholders' share capital contribution (before initial public offering) placed in fixed deposits maintained with a bank before placing funds under an Islamic deposit scheme. Commission earned on this deposit is added to the amount to be donated for charitable purposes.

9 LONG TERM LOANS

	2016 SR'000 (Unaudited)	2015 SR'000 (Audited)
Ministry of Finance ("MoF") loan (see note (a) below)	5,000,000	5,000,000
Others (see note (b) below)	2,500,000	2,100,000
	<u>7,500,000</u>	<u>7,100,000</u>

(a) During 2011, the Parent Company received a loan of SR 5,000 million from the Ministry of Finance for the development of KAEC. The loan is secured against pledge of 24.7 million sqm of the Greenfield land and carries annual commission at commercial rates and was originally repayable, with a three years grace period, in seven annual instalments commencing from 1 June 2015. However, based on the Company's request submitted before the due date, the MoF, during September 2015, has rescheduled the loan by extending the grace period for an additional period of five years. The principal amount is now repayable in seven annual instalments commencing from June 2020 with accrued commission payable on an annual basis.

(b) During 2014, the Parent Company has signed an Islamic facility agreement with a commercial bank for SR 2,000 million Murabaha liquidity finance facility that carries commission at commercial rates. The outstanding balance of the long term loan at 31 December 2016 amounted to SR 1,500 million (2015: SR 1,100 million). As per the terms of the agreement, the loan is repayable in eight bi-annual instalments from 30 June 2018 to 31 December 2021. The loan is secured against part of KAEC's greenfield land held by the Parent Company and an order note for SR 2,500 million.

During 2015, the Parent Company has signed an Islamic facility agreement with a commercial bank for SR 1,000 million that carries commission at commercial rates, which has not been availed yet. As per the terms of the agreement, the loan is repayable in eight bi-annual instalments from 20 October 2019 to 20 April 2023. The loan is secured against part of KAEC's greenfield Land held by the Parent Company and an order note for SR 1,200 million.

During 2014 and 2015, the Company has signed two facility agreements with a commercial bank for SR 1,000 million each carrying commission at prevailing commercial rates. The outstanding balance of the loan at 31 December 2016 amounted to SR 1,000 million (2015: SR 1,000 million). As per the terms of the agreements, the loan terms are door to door 8 years with 3 years grace period starting from respective dates of the agreements. In order to comply with the Sharia principles, an additional facility of SR 250 million has been arranged by the bank linked to each of the facility, to permit the rollover (repayment and drawdown) so that the principal amount is available to the Company for the first 3 years of the loan. Each loan facility is secured against part of KAEC's greenfield Land held by the Parent Company and an order note for SR 1,250 million each.

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

10 ZAKAT AND INCOME TAX

Charge for the period

	<i>2016</i> <i>SR'000</i> <i>(Unaudited)</i>	<i>2015</i> <i>SR'000</i> <i>(Audited)</i>
Provided during the period	<u>20,000</u>	<u>28,584</u>

Movement in provision

The movement in the provision is as follows:

	<i>2016</i> <i>SR'000</i> <i>(Unaudited)</i>	<i>2015</i> <i>SR'000</i> <i>(Audited)</i>
At the beginning of the period	30,263	57,291
Provided during the period	20,000	28,584
Payments during the period	(20,944)	(55,612)
At the end of the period	<u>29,319</u>	<u>30,263</u>

11 OTHER INCOME

Other income mainly includes:

- a) Forfeited non-refundable deposits, amounting to SR 45 million (2015: Nil), received from potential buyers against sale of assets, classified as held for disposal;
- b) Compensation in respect of cancellation of development lease agreement by a customer, amounting to SR 96 million, based on court decision, out of which SR 24 million was received during the period. The balance receivable within twelve months, amounting to SR 24 million, is classified as current asset under "Accounts receivable and other current assets". The remaining SR 48 million which will be received after one year, as per the payment schedule, is classified as a long term receivable in the consolidated balance sheet;
- c) The Group has entered into an agreement ("the Agreement") with two external parties to develop, finance and operate an academic educational institute at KAEC. In accordance with the terms of the agreement, the net life cycle operating loss of the institute is to be funded by one of the parties to the Agreement, to the extent of USD 58.5 million. Consequently, the net operating loss of the subject institute, amounting to SR 30.7 million (2015: SR 2.5 million), incurred during the period, has been reimbursed and accounted for as an other income accordingly; and
- d) Reversal of accruals no longer required.

12 EARNINGS / (LOSS) PER SHARE

Earnings / (loss) per share for the periods have been computed by dividing the income / (loss) from main operations and net income / (loss) for such periods by the number of weighted average of ordinary shares outstanding during the period.

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

13 CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities and commitments as at 31 December 2016 are described as below:

- (a) The Group has contracted with its industrial customers to provide property management and city maintenance services. The costs of providing these services to industrial customers may be higher than the fee or charges that the Group may be able to charge to its industrial customers. The financial effect if any, is not currently practicable to estimate.
- (b) During previous years, one of the customers filed a claim against the Parent Company relating to the handover of a property, against which the customer had failed to pay the due amounts on due dates. Initially, Appellate Court has issued a ruling against the Company. However, subsequently, the Company filed an appeal with the Supreme Justice Council against the ruling. The Supreme Justice Council directed the Company to write to the Royal Court. During the twelve-month period ended 31 December 2016, the final verdict has been issued in favour of the customer. Accordingly, a loss of SR 83.4 million resulting from sale of development property has been recognized in the consolidated statement of income.
- (c) The Company has also provided two corporate guarantees to commercial banks to allow PDC to secure Shariah compliant commodity Murabaha facilities (note 6).
- (d) The Group has outstanding commitments related to future expenditure for the development of KAEC, amounting to SR 1,686 million (2015: SR 2,361 million).

14 SEGMENTAL INFORMATION

Currently, the Group is principally involved in sale of plots and apartments and villas in KAEC and in providing certain ancillary services such as hospitality, education and lease, which are not significant to the entire Group's business. Accordingly, the management believes that at this stage, the Group's business activity falls within a single business segment which is subject to same risks and returns and non-disclosure of segment information may not affect the decisions of the users of these interim consolidated financial statements.

15 APPROVAL OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The interim consolidated financial statements were approved and authorised to issue by the Board of Directors on 18 January 2017, corresponding to 20 Rabi' II 1438H.