EMAAR THE ECONOMIC CITY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

Contents	**Page No.**

Building a better
working world

Ernst & Young & Co. (Public Accountants)
13th Floor – King's Road Tower
PO Box 1994
King Abdulaziz Road (Malek Road)
Jeddah 21441
Saudi Arabia
Registration Number: 45

Tel: +966 12 221 8400
Fax: +966 12 221 8575

www.ey.com

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Emaar The Economic City - A Saudi Joint Stock Company ('the Company' or 'the Parent Company') and its subsidiaries (collectively referred to as 'the Group'), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	Why considered most significant	How our audit addressed the key audit matter
First time Adoption of International Financial Reporting Standard (IFRS)	As a result of the regulatory requirement in the Kingdom of Saudi Arabia, effective 1 January 2017, the Group is required to prepare the consolidated financial statements in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") as endorsed in the Kingdom of Saudi Arabia ("KSA") and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants ("SOCPA"), (referred to as "IFRS as endorsed in KSA"). For all periods up to and including the year ended 31 December 2016, the Group prepared and published its audited consolidated financial statements in accordance with Generally Accepted Accounting Principles (GAAP) issued by SOCPA in KSA (referred to as "SOCPA GAAP"). The consolidated financial statements for the year ended 31 December 2017 are the Group's first financial statements prepared in accordance with IFRS as endorsed in KSA. Accordingly, the Group has applied IFRS as endorsed in KSA for preparation of its consolidated financial statements for the year beginning 1 January 2017, as well as for presenting the relevant comparative period data. In compliance with the requirements of IFRS 1 as endorsed in KSA, the Group's opening statement of consolidated financial position was prepared as at 1 January 2016 after incorporating required adjustments to reflect the transition to IFRS as endorsed in KSA from the previous SOCPA GAAP. The Group has assessed the impact and significant adjustments are made on transitioning from SOCPA GAAP to IFRS as endorsed in KSA in the group consolidated financial statements as at 1 January 2016 and 31 December 2016. We considered this as a key audit matter since the first time adoption of IFRS has significant impact on the consolidated financial statements from the recognition, measurement and disclosure perspective. Refer to notes 2 and 6 to the consolidated financial statements for the details of transition and reconciliation adjustments between SOCPA GAAP and IFRS as endorsed in KSA.	We performed the following procedures in respect of the transition to IFRS as endorsed in KSA: • Assessed the appropriateness of the implementation of IFRS as endorsed in KSA in accordance with the provisions of IFRS 1, as endorsed in the KSA. • Assessed the appropriateness of the accounting policies adopted. • Evaluated the GAAP differences identified by the Group's Management. • Tested the sample of adjustments (including calculation and recording) made to various balances and transactions to bring them in line with IFRS as endorsed in KSA. • Assessed the appropriateness of disclosures made in relation to transition impact from SOCPA GAAP to IFRS as endorsed in KSA. • Assessed the appropriateness of exceptions to retrospective application of other IFRSs as endorsed in KSA and optional exemptions availed by the Group from full retrospective application of certain IFRSs as endorsed in KSA, in preparing the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)
(continued)

Key audit Matter	Why considered most significant	How our audit addressed the key audit matter
Revenue recognition	Revenue is an important component of the Group's performance and profitability. The Group has early adopted International Financial Reporting Standard 15: 'Revenue from contracts with customers' (IFRS 15) with effect from 1 January 2016 (the transition date), as the Group considers it better reflects the real estate business performance of the Group. Revenue recognition on the sale of properties, including villas, apartments and plots of land involves significant inherent risk due to the judgement and estimation involved. Audit of judgements around the percentage of completion of projects, including the cost incurred to date against the total cost of the project was an item requiring significant audit attention, in particular consideration of: • The ability of the Group to enforce payment for work completed under the terms of its contract thereby meeting the IFRS 15 criteria for revenue recognition over time • The total expected cost of completion of the projects • The likelihood of collection of remaining sales consideration Refer to note 4 of the consolidated financial statements for the accounting policy related to revenue recognition and note 7 for the disclosure related to revenue.	In responding to this area of focus, our procedures included the following: • Obtained understanding of the process and key controls surrounding revenue recognition process. We performed walkthroughs and testing of relevant key controls to determine whether they were designed, implemented and operated effectively throughout the year. • Reviewed the customer contracts in respect of sale of properties, on a sample basis, to identify the performance obligations of the Group under these contracts and assessed whether these performance obligations are satisfied over time or at a point in time, based on IFRS 15 criteria. Our focus included the determination of whether the Group has enforceable right to payment for performance completed to date. • Reviewed the cost estimation process to assess the robustness of the cost estimation mechanism, with specific focus on the total estimated cost of the projects. • Assessed the likelihood of collection of sales consideration, as evidenced by bank guarantees and promissory notes. • Performed test of details, on a sample basis, to check that the costs incurred to date on developments are recorded appropriately. We also checked the allocation of these costs to sold and un-sold units based on the relative area of the respective project. • Recalculated the revenue, on a sample basis, using the input method and compared it with the calculation performed by the management. • Assessed the appropriateness of the Group's revenue recognition accounting policies and the related disclosures in the consolidated financial statements.

Building a better
working world

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)
(continued)

Key audit Matter	Why considered most significant	How our audit addressed the key audit matter
Impairment review of investment properties and property and equipment	The Group assesses indicators of impairment on its investment properties and property and equipment on an ongoing basis. We have considered this as a key audit matter as the evaluation of impairment indicators involves significant assumptions and estimates. Any variation in the estimation/ assumptions could have a material impact on the consolidated financial statements. As part of its assessment, the Group reviews indicators including but not limited to, expected net cash flows from the identified Cash Generating Units (CGUs), current market conditions and other performance indicators. Also, the Group considers certain assets including freehold land and infrastructure assets as corporate assets, and combines expected net cash flows from all cash generating units to which the corporate assets belong, for impairment assessment. In addition to the above, the Group involves third party valuers to carry out valuations for its investment properties, to assess the fair value of its investment properties. Refer to note 4 to the consolidated financial statements for the accounting policy for impairment of non-current assets, note 12 & 13 for disclosures related to property and equipment and investment properties, respectively.	In order to evaluate the management assessment of impairment, we performed the following: • Discussed with the management the process of identifying impairment indicators and results of the assessment. • Reviewed the expected cash flows from CGUs, on a sample basis, and involved our internal specialists to assess the managements' impairment assessment, including the review of assumptions underlying the value in use calculations, based on knowledge of the business, industry and prevailing market conditions. Our specialists also assessed whether the approach and methods used for the purpose of impairment assessment are in accordance with the established standards. • Assessed the qualifications and expertise of the third party valuers, involved in the valuation of investment properties. • Assessed the appropriateness of the Group's accounting policies for impairment and the related disclosures in the consolidated financial statements.

Building a better working world

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)
(continued)

Other information included in The Group's 2017 Annual Report

Other information consists of the information included in the Group's 2017 annual report, other than the consolidated financial statements and our auditors' report thereon. Management is responsible for the other information in its annual report. The Group's 2017 annual report is expected to be made available to us after the date of this auditors' report.

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

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

When we read the Group's 2017 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants and the provisions of Companies' Law and 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.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the 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 the 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 the International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the 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.

Building a better working world

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY) (continued)

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

for Ernst & Young

Ahmed I. Reda
Certified Public Accountant
License No. 356

10 Rajab 1439 H
27 March 2018

Jeddah

17/59/AIR

شركة ارنست ويونغ وشركاهم محاسبون قانونيون
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS

Emaar The Economic City (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	*31 December 2017 SR'000*	*31 December 2016 SR'000 (Note 6)*
Revenue	7	**1,437,976**	2,267,771
Cost of revenue	7	**(615,622)**	(1,093,607)
GROSS PROFIT		**822,354**	1,174,164
EXPENSES			
Selling and marketing	8	**(63,180)**	(125,026)
General and administration	9	**(252,501)**	(285,972)
Impairment loss		**(48,573)**	(44,016)
Depreciation	12 (a)	**(152,368)**	(128,161)
Amortisation	14	**(13,069)**	(15,091)
PROFIT FROM MAIN OPERATIONS		**292,663**	575,898
OTHER INCOME / (EXPENSES)			
Murabaha deposit income		**15,953**	18,150
Financial charges		**(54,074)**	(48,784)
Share of results of equity accounted investees	15	**31,462**	(1,983)
Other income	10	**102,858**	198,769
PROFIT FOR THE YEAR BEFORE ZAKAT		**388,862**	742,050
Zakat	27	**(138,038)**	(20,000)
NET PROFIT FOR THE YEAR		**250,824**	722,050
OTHER COMPREHENSIVE LOSS			
Items that will be reclassified to consolidated statement of profit or loss in subsequent periods:			
Share of other comprehensive loss from equity accounted investee	15 (a)	**(28,057)**	-
Items that will not be reclassified to consolidated statement of profit or loss in subsequent periods:			
Re-measurement loss on defined benefit plans	25	**(46)**	(3,076)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**222,721**	718,974
NET PROFIT FOR THE YEAR ATTRIBUTABLE TO:			
Equity holders of the parent		**240,921**	719,683
Non-controlling interests		**9,903**	2,367
		250,824	722,050
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:			
Equity holders of the parent		**212,922**	716,607
Non-controlling interests		**9,799**	2,367
		222,721	718,974
EARNINGS PER SHARE			
Weighted average number of ordinary shares ('000)	11	**850,000**	850,000
Basic and diluted profit per share attributable to ordinary equity holders of the Parent Company (in SR per share)	11	**0.28**	0.85

The attached notes 1 to 36 form part of these consolidated financial statements.

Emaar The Economic City (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	*31 December 2017 SR'000*	*31 December 2016 SR'000 (Note 6)*	*1 January 2016 SR'000 (Note 6)*
ASSETS				
NON-CURRENT ASSETS				
Property and equipment	12	**5,091,433**	4,663,038	3,865,343
Investment properties	13	**5,085,439**	5,057,221	5,203,417
Intangible assets	14	**15,198**	19,450	20,389
Investment in equity accounted investees	15	**2,388,691**	2,385,286	2,341,479
Employees' receivable - Home Ownership Scheme	20	**82,031**	69,774	34,530
Other long term receivable	10(b)	**24,059**	48,119	-
TOTAL NON-CURRENT ASSETS		**12,686,851**	12,242,888	11,465,158
CURRENT ASSETS				
Current portion of employees' receivable - Home Ownership Scheme	20	**4,779**	4,121	2,126
Unbilled revenue		**343,414**	90,723	-
Development properties	16	**1,769,398**	1,493,476	1,071,128
Accounts receivables and other current assets	17	**739,279**	563,885	348,026
Murabaha term deposits with banks	18	**524,110**	997,000	1,012,979
Cash and cash equivalents	19	**1,227,810**	1,177,396	1,898,851
TOTAL CURRENT ASSETS		**4,608,790**	4,326,601	4,333,110
Assets held for sale		-	-	90,891
TOTAL ASSETS		**17,295,641**	16,569,489	15,889,159
EQUITY AND LIABILITIES				
EQUITY				
Share capital	21	**8,500,000**	8,500,000	8,500,000
Statutory reserve	22	**11,536**	11,536	1,869
Accumulated losses		**(502,261)**	(715,183)	(1,422,123)
Effect of reducing the ownership percentage in a subsidiary	23	**(86)**	(86)	(86)
Equity attributable to the equity holders of the Parent Company		**8,009,189**	7,796,267	7,079,660
Non-controlling interests		**(2,069)**	(11,868)	(14,235)
TOTAL EQUITY		**8,007,120**	7,784,399	7,065,425

The attached notes 1 to 36 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at 31 December 2017

	Note	***31 December 2017 SR'000***	*31 December 2016 SR'000 (Note 6)*	*1 January 2016 SR'000 (Note 6)*
NON-CURRENT LIABILITIES				
Long term loans	24	**7,350,000**	7,500,000	7,100,000
Employees' terminal benefits	25	**52,758**	43,205	31,192
Unearned financing component on long term receivables		**69,898**	63,180	25,447
Unearned interest income - Home -Ownership Scheme	20	**18,813**	14,336	6,158
TOTAL NON-CURRENT LIABILITIES		**7,491,469**	7,620,721	7,162,797
CURRENT LIABILITIES				
Amount billed in excess of work done		**-**	-	773,640
Accounts payable and accruals	26	**993,966**	1,135,050	857,034
Zakat payable	27	**153,086**	29,319	30,263
Current portion of long term loan	24	**650,000**	-	-
TOTAL CURRENT LIABILITIES		**1,797,052**	1,164,369	1,660,937
TOTAL LIABILITIES		**9,288,521**	8,785,090	8,823,734
TOTAL EQUITY AND LIABILITIES		**17,295,641**	16,569,489	15,889,159

The attached notes 1 to 36 form part of these consolidated financial statements.

Emaar The Economic City (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributed to equity holders of the parent						
	Share capital SR'000	*Statutory reserve SR'000*	*Accumulated losses SR'000*	*Effect of reducing the ownership percentage in a subsidiary SR'000*	*Total SR'000*	*Non-controlling interests SR'000*	*Total equity SR'000*
Balance as at 1 January 2017	8,500,000	11,536	(715,183)	(86)	7,796,267	(11,868)	7,784,399
Net profit for the year	-	-	240,921	-	240,921	9,903	250,824
Other comprehensive loss for the year	-	-	(27,999)	-	(27,999)	(104)	(28,103)
Total comprehensive income for the year	-	-	212,922	-	212,922	9,799	222,721
Balance as at 31 December 2017	**8,500,000**	**11,536**	**(502,261)**	**(86)**	**8,009,189**	**(2,069)**	**8,007,120**
Balance as at 1 January 2016	8,500,000	1,869	(1,422,123)	(86)	7,079,660	(14,235)	7,065,425
Net profit for the year	-	-	719,683	-	719,683	2,367	722,050
Other comprehensive loss for the year	-	-	(3,076)	-	(3,076)	-	(3,076)
Total comprehensive income for the year	-	-	716,607	-	716,607	2,367	718,974
Transfer to statutory reserve	-	9,667	(9,667)	-	-	-	-
Balance as at 31 December 2016	8,500,000	11,536	(715,183)	(86)	7,796,267	(11,868)	7,784,399

The attached notes 1 to 36 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	31 December 2017 SR'000	31 December 2016 SR'000 (Note 6)
OPERATING ACTIVITIES			
Profit for the year before zakat		**388,862**	742,050
Adjustments to reconcile profit for the year before zakat to net cash flows:			
Depreciation	12 & 13	**232,584**	197,246
Impairment loss		**48,573**	44,016
Amortization	14	**13,069**	15,091
Financial charges		**54,074**	48,784
Share of results of equity accounted investees	15	**(31,462)**	1,983
Murabaha deposit income		**(15,953)**	(18,150)
Unwinding of unearned interest income		**(333)**	(1,326)
Employees' benefit expense – Home Ownership Scheme		**5,236**	14,289
Provision for development properties	16	**3,526**	(709)
Provision for doubtful debts	17	**7,835**	21,885
Loss on disposal of property and equipment		**-**	296
Provision for employees' terminal benefits	25	**13,933**	10,597
Elimination of share of profit on sale of land	15 (b)	**-**	8,165
		719,944	1,084,217
Working capital adjustments			
Employees' receivable – Home Ownership Scheme		**(13,341)**	(42,024)
Unbilled revenue, net		**(252,691)**	(864,363)
Development properties		**(277,180)**	(164,742)
Accounts receivables and other current assets		**(159,169)**	(285,863)
Accounts payable and accruals		**(149,010)**	278,016
Cash (used in) / from operations		**(131,447)**	5,241
Financial charges paid		**(54,074)**	(48,784)
Zakat paid	27	**(6,345)**	(20,944)
Employees' terminal benefits paid	25	**(4,426)**	(1,660)
Net cash used in operating activities		**(196,292)**	(66,147)
INVESTING ACTIVITIES			
Net movement in murabaha term deposits with banks		**472,890**	15,979
Murabaha deposit income		**15,953**	18,150
Proceeds from sale of assets classified as held for sale		**-**	46,875
Purchase of property and equipment	12	**(652,010)**	(967,022)
Proceeds from disposal of property and equipment		**-**	904
Amounts incurred on investment properties	13	**(88,028)**	(139,820)
Purchase of intangible assets	14	**(8,817)**	(14,152)
Investment in equity accounted investees	15 (b)	**-**	(53,955)
Net cash used in investing activities		**(260,012)**	(1,093,041)
FINANCING ACTIVITIES			
Net movement in long term loans		**500,000**	400,000
Net movement in unearned interest income		**6,718**	37,733
Net cash from financing activities		**506,718**	437,733
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		**50,414**	(721,455)
Cash and cash equivalents at the beginning of the year		**1,177,396**	1,898,851
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**1,227,810**	1,177,396

MAJOR NON-CASH TRANSACTIONS

Major non-cash transactions are reflected in note 12, note 13, note 16 and note 28.

The attached notes 1 to 36 form part of these consolidated financial statements.

1. CORPORATE INFORMATION

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 ("KSA") 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 Company has been shifted to Rabigh with a revised Commercial Registration No. 4602005884, dated 6 Rabi Awal 1436H, corresponding to 28 December 2014.

The 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").

As at the reporting date, the Company has investments in subsidiaries, mentioned in note 4 (hereinafter referred to together as "the Group").

2. BASIS OF PREPARATION

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants ("SOCPA"). These are the Group's first annual consolidated financial statements in accordance with IFRS, as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the SOCPA. Accordingly, the International Financial Reporting Standard 1, "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"), as endorsed in KSA has been applied. Refer to note 6 for information on the first time adoption of IFRS as endorsed in KSA, by the Group.

2.2 Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention using the accrual basis of accounting and going concern concept, modified by the adjustment for arriving at the net present value of the Employees' receivable – Home Ownership Scheme. Also, in respect of employee and other post-employment benefits, actuarial present value calculations are used.

2.3 Functional and presentation currency

The Group's consolidated financial statements are presented in Saudi Riyals, which is also the Parent Company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. All figures are rounded off to the nearest thousands except when otherwise indicated.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

These estimates and assumptions are based upon experience and various other factors that are believed to be reasonable under the circumstances and are used to judge the carrying values of assets and liabilities that are not readily apparent from other sources. The 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 or in the revision period and future periods if the changed estimates affect both current and future periods.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

The key judgments, estimates and assumptions that have a significant impact on the consolidated financial statements of the Group are discussed below:

Judgements

Satisfaction of performance obligations
The Group is required to assess each of its contracts with customers to determine whether performance obligations are satisfied over time or at a point in time in order to determine the appropriate method of recognizing revenue. The Group has assessed that based on the sale agreements entered into with customers and the provisions of relevant laws and regulations, where contracts are entered into to provide real estate assets to customer, the Group does not create an asset with an alternative use to the Group and usually has an enforceable right to payment for performance completed to date. Based on this, the Group recognizes revenue over time. Where this is not the case, revenue is recognized at a point in time.

The Group has elected to apply the input method in allocating the transaction price to performance obligation where revenue is recognized over time. The Group considers that the use of the input method, which requires revenue recognition based on the Group's efforts to the satisfaction of the performance obligation, provides the best reference of revenue actually earned. In applying the input method, the Group estimates the cost to complete the projects in order to determine the amount of the revenue to be recognized.

Determination of transaction prices
The Group is required to determine the transaction price in respect of each of its contracts with customers. In making such judgment the Group assesses the impact of any variable consideration in the contract, due to discounts or penalties, the existence of any significant financing component in the contract and any non-cash consideration in the contract.

Classification of investment properties
The Group determines whether a property qualifies as an investment property in accordance with IAS 40 Investment Property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by the Group. The Group has determined that hotel and serviced residential buildings owned by the Group are to be classified as part of property and equipment rather than investment properties since the Group also operates these assets.

Transfer of real estate assets from investment properties to development properties
The Group sells real estate assets in its ordinary course of business. When the real estate assets which were previously classified as investment properties are identified for sale in the ordinary course of business, then the assets are transferred to development properties at their carrying value at the date of identification and become held for sale. Sale proceeds from such assets are recognized as revenue in accordance with IFRS 15 Revenue from Contracts with Customers.

Operating lease commitments - Group as lessor
The Group enters into commercial and retail property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and, therefore, accounts for the contracts as operating leases.

Consolidation of subsidiaries
The Group has evaluated all the investee entities to determine whether it controls the investee as per the criteria laid out by IFRS 10 Consolidated Financial Statements. The Group has evaluated, amongst other things, its ownership interest, the contractual arrangements in place and its ability and the extent of its involvement with the relevant activities of the investee entities to determine whether it controls the investee.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimations and assumptions

Defined benefit plans
The cost of the defined benefit plan and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and employees' turnover rate. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The most sensitive parameters are discount rate and future salary increases. In determining the appropriate discount rate, management considers the market yield on high quality corporate bonds. Future salary increases are based on expected future inflation rates, seniority, promotion, demand and supply in the employment market. The mortality rate is based on publicly available mortality tables for the specific countries. Those mortality tables tend to change only at intervals in response to demographic changes. Further details about employee benefits obligations are provided in note 25.

Impairment of trade and other receivables
An estimate of the collectible amount of trade and other receivables is made when collection of the full amount is no longer probable. The entity follows an expected credit loss model for the impairment of trade and other receivables.

Useful lives of property and equipment and investment properties
The Group's management determines the estimated useful lives of its property and equipment and investment properties for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. The management periodically reviews estimated useful lives and the depreciation method to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from these assets.

Cost to complete the projects
The Group estimates the cost to complete the projects in order to determine the cost attributable to revenue being recognized. These estimates include, amongst other items, the construction costs, variation orders and the cost of meeting other contractual obligations to the customers. Such estimates are reviewed at regular intervals. Any subsequent changes in the estimated cost to complete may affect the results of the subsequent periods.

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

Going concern
The Group's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

4. SIGNIFICANT ACCOUNTING POLICIES

Following are the significant accounting policies applied by the Group in preparing its consolidated financial statements and the opening IFRS statement of financial position as at 1 January 2016 for the purposes of the transition to IFRSs, except for the application of relevant exceptions or available exemptions as stipulated in IFRS 1. Details of such exceptions and exemption are disclosed in note 6.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2017. 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. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of the subsidiary, without the loss of control, is accounted for as equity transactions. If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in consolidated statement of profit or loss and other comprehensive income. Any investment retained is recognized at fair value.

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:

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Consolidation (continued)

Name	*Country of incorporation*	*Year of incorporation*	*% of capital held (directly or indirectly)*	
			2017	2016
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 ("REOM")	Saudi Arabia	2013	**98%**	98%
Economic Cities Pioneer Real Estate Management Company ("REM")	Saudi Arabia	2013	**98%**	98%
Economic Cities Real Estate Development Company ("RED")	Saudi Arabia	2013	**98%**	98%
Emaar Knowledge Company Limited ("EKC") (see note below)	Saudi Arabia	2015	**100%**	100%

The subsidiaries do not have any conventional investments or borrowings as at 31 December 2017 and 2016. There has been no interest income for the years ended 31 December 2017 and 2016. Refer to note 15 for information related to equity accounted investees.

Investment in equity accounted investees (associate and joint venture)
Associate is an entity in which the Group has significant influence, but not control, over the financial and operating policies. Joint venture is an entity over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

The Group's investment in associate and joint venture are accounted for using the equity method. Under the equity method, the investment in associate and joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate or joint venture since the acquisition date. The consolidated statement of profit or loss and other comprehensive income reflects the Group's share of the results of operations of the associate and joint venture. Any change in Other Comprehensive Income (OCI) of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and associate and its joint venture are eliminated to the extent of the Group's interest in the associate and joint venture.

The financial statements of the associate and joint venture are prepared for the same reporting period as the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in associate or its joint venture. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the loss in the consolidated statement of profit or loss and other comprehensive income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in associate or joint venture, the carrying amount of that interest is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Current versus non-current classification

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

- Expected to be realized or intended to be sold or consumed in the 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.

Liabilities
A liability is current when:

- It is expected to be settled in the 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 twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Revenue recognition

Early adoption of IFRS 15
IFRS 15 Revenue from contracts with customers was issued in May 2014 and is effective for annual periods commencing on or after 1 January 2018 either based on a full retrospective or modified application, with early adoption permitted. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, which is found currently across several Standards and Interpretations within IFRS's. It establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has reviewed the impact of IFRS 15 and has elected to early adopt IFRS 15 with effect from 1 January 2016, as the Group considers that it better reflects the business performance of the Group. The Group has opted for full retrospective application permitted by IFRS 15 upon adoption of the new standard. Accordingly, the details of adjustments to the immediately preceding period for which this standard is applied are disclosed in note 6.

As a result of early adoption, the Group has applied the following accounting policy for revenue recognition in the preparation of its consolidated financial statements:

Revenue from contracts with customers for sale of properties
The Group recognizes revenue from contracts with customers based on a five step model as set out in IFRS 15:

Step 1. Identify the contract with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria that must be met.
Step 2. Identify the performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.
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 to the performance obligations in the contract: For a contract that has more than one performance obligation, the Group will allocate 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 when (or as) the entity satisfies a performance obligation.

4. SIGNIFICANT ACCOUNTING POLICIES

(continued) Revenue recognition (continued)

Revenue from contracts with customers for sale of properties (continued)
The Group satisfies a performance obligation and recognizes revenue over time, if one of the following criteria is met:

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

For performance obligations, where one of the above conditions are not met, revenue is recognized at the point in time at which the performance obligation is satisfied.

When the Group satisfies a performance obligation by delivering the promised goods or services, it creates a contract asset based on the amount of consideration earned by the performance. Where the amount billed to the customer exceeds the amount of revenue recognized, this gives rise to a contract liability.

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment.

Revenue is recognized in the consolidated statement of profit or loss and other comprehensive income to the extent that it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably.

Rental income
Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred or incentive in negotiating and arranging an operating lease is considered an integral part of the carrying amount of the leased contract and recognized on a straight-line basis over the lease term.

Service revenue
Revenue from rendering of services is recognized over a period of time when the outcome of the transaction can be estimated reliably, by reference to the stage of completion of the transaction at the reporting date. Where the outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered.

Hospitality revenue
Revenue from hotels comprises revenue from rooms, food and beverages and other associated services provided. The revenue is recognized net of discount on an accrual basis when the services are rendered.

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

Income on Murabaha term deposits
Income on Murabaha term deposits with banks is recognized on an effective yield basis.

Cost of revenue
Cost of revenue includes the cost of land, development and other service related costs. The cost of revenue is based on the proportion of the cost incurred to date related to sold units to the estimated total costs for each project. The costs of revenues in respect of hotel and school is based on actual cost of providing the services.

Expenses
Selling and marketing and general and administrative expenses include direct and indirect costs not specifically part of cost of revenue. Selling and marketing expenses are those arising from the Group's efforts underlying the sales and marketing functions. All other expenses, except for financial charges, depreciation, amortization and impairment loss are classified as general and administrative expenses. Allocations of common expenses between cost of revenue, selling and marketing and general and administrative expenses, when required, are made on a consistent basis.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Zakat
Zakat is provided for in accordance with the Saudi Arabian fiscal regulations. Provision for zakat for the Company and zakat related to the Company's ownership in the Saudi Arabian subsidiaries is charged to the consolidated statement of profit or loss and other comprehensive income. 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.

Withholding tax
The Group withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under the Saudi Arabian Tax Laws. Withholding tax related to foreign payments are recorded as liabilities.

Foreign currencies
Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange ruling at the reporting date. All differences arising on settlement or translation of monetary items are taken to the consolidated statement of profit or loss and other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of a gain or loss on change in fair value of the item.

Property and equipment

Recognition and measurement
Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. Such cost also includes the borrowing costs for long-term construction projects if the recognition criteria are met.

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

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and the net amount is recognized within other income in the consolidated statement of profit or loss and other comprehensive income.

The cost of replacing a major part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that 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. When significant parts of property and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the consolidated statement of profit or loss and other comprehensive income as incurred.

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 asset (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 and other comprehensive income when the asset is derecognized.

Depreciation
Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Freehold land is not depreciated.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the respective assets.

Depreciation methods, useful lives and residual values are reviewed periodically and adjusted if required.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

Capital work in progress
Capital work in progress are carried at cost less any recognized impairment loss. When the assets are ready for intended use, the capital work in progress is transferred to the appropriate property and equipment category and is accounted for in accordance with the Group's policies.

Leases
The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

Group as a lessee
A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. An operating lease is a lease other than a finance lease. Generally all leases entered by the Group are operating leases and the leased assets are not recognized in the Group's statement of financial position.

Operating lease cost is recognized as an operating expense in the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the lease term.

Group as a lessor
Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases.

The Group enters into leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases. Lease income is recognized in the consolidated statement of profit or loss and other comprehensive income in accordance with the terms of the lease contracts over the lease term on a systematic basis as this method is more representative of the time pattern in which use of benefits are derived from the leased assets.

The Group operates an "Employee Home Ownership Scheme" which is categorized as a finance lease. Under the scheme, the Group sells the built units to employees under interest free finance lease arrangement for a period of twenty years. Generally, the employee is entitled to continue in the scheme, even after retirement, resignation or termination from the Group. 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 profit or loss and other comprehensive income as an employee benefit expense. Interest income is recognized in the consolidated statement of profit or loss and other comprehensive 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 profit or loss and other comprehensive income.

Lease incentives or any escalation in the lease rental are recognized as an integral part of the total lease obligation/ receivable and accounted for on a straight line basis over the term of the lease. Contingent rents are recognized as revenue in the period in which they are earned.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs
Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs that are directly attributable to the construction of an asset are capitalized using capitalization 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 profit or loss and other comprehensive 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 capitalized as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Investment properties
Investment property is property held either to earn rental income or for capital appreciation or for both, as well as those held for undetermined future use but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost less accumulated depreciation and impairment loss, if any. Investment properties are depreciated on a straight line basis over the estimated useful life of the respective assets. No depreciation is charged on land and capital work-in-progress.

Investment properties are derecognized either when they have been disposed off or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the consolidated statement of profit or loss and other comprehensive income in the period of derecognition.

Transfers are made from investment properties to development properties 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.

The useful lives and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from these assets.

Fair value measurement
The Group discloses the fair value of the non-financial assets such as investment properties as part of its financial statements. 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 by the Group.

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

A fair value measurement 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.

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.

Intangible assets
Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles are not capitalized and the related expenditure is reflected in the consolidated statement of profit or loss and other comprehensive income in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)
Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of profit or loss and other comprehensive income in the expense category that is consistent with the function of the intangible assets.

The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of profit or loss and other comprehensive income when the asset is derecognized.

Impairment of non-financial assets
The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or Cash Generating Unit (CGU’s) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using appropriate discount rate that reflects current market assessments of the time value of money. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

An assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset’s or CGU’s recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of profit or loss and other comprehensive income.

Intangible assets with indefinite useful lives are tested for impairment annually at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

Development properties
Properties acquired, constructed or in the course of construction and development for sale are classified as development properties and are stated at the lower of cost and net realizable value. The cost of development properties generally includes the cost of land, construction and other related expenditure necessary to get the properties ready for sale. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The management reviews the carrying values of development properties on an annual basis.

Non-Current Asset held for sale
Non-current assets are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. The criteria for held for sale classification is regarded as met only when the disposal is highly probable and the asset is available for immediate disposal in its present condition. Actions required to complete the disposal should indicate that it is unlikely that significant changes will be made or that the decision to dispose will be withdrawn.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-Current Asset held for sale (continued)
Such assets are generally measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognized in the consolidated statement of profit or loss and other comprehensive income.

Once classified as held for sale, the respective assets are no longer amortized or depreciated, and equity accounted investee is no longer equity accounted.

Financial Instruments

Early adoption of IFRS 9
IFRS 9 – "Financial Instruments" is effective for annual periods commencing on or after 1 January 2018. The Group has elected to early adopt IFRS 9 retrospectively from 1 January 2016. IFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Initial recognition – Financial assets and financial liabilities
An entity shall recognize a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument.

Financial assets

Initial Measurement
At initial recognition, except for the trade receivables which do not contain a significant financing component, the Group measures a financial asset at its fair value. In the case of a financial asset not at fair value through profit or loss, financial asset are measured at transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the consolidated statement of profit or loss and other comprehensive income, if any.

The trade receivables that do not contain a significant financing component or which have a maturity of less than 12 months are measured at the transaction price as per IFRS 15.

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

a) those to be measured subsequently at fair value (either through consolidated statement of other comprehensive income, or through consolidated statement of profit or loss), and
b) those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. The category most relevant to the Group is financial assets measured at amortized cost.

The Group has not classified any financial asset as measured at fair value through consolidated statement of profit or loss and other comprehensive income.

Financial assets measured at amortized cost
A financial asset shall be measured at amortized cost if both of the following conditions are met:

a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortized cost include receivables, employees' receivable - home ownership scheme and. Murabaha term deposits with banks.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Financial assets (continued)

Financial assets measured at amortized cost (continued)
After initial measurement, such financial assets are subsequently measured at amortized cost using the Effective Interest Rate ("EIR") method, less impairment (if any). Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated statement of profit or loss and other comprehensive income. The losses arising from impairment are recognized in the consolidated statement of profit or loss and other comprehensive income.

Reclassification
When and only when, an entity changes its business model for managing financial assets it shall reclassify all affected financial assets in accordance with the above mentioned classification requirements.

De-recognition
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e. removed from the Group's consolidated statement of financial position) when the rights to receive cash flows from the asset have expired.

Impairment of financial assets
The Group assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

IFRS 9 requires an entity to follow an expected credit loss model for the impairment of financial assets. It is no longer necessary for a credit event to have occurred for the recognition of credit losses. Instead, an entity, using expected credit loss model, always accounts for expected credit losses and changes therein at each reporting date.

Expected credit loss shall be measured and provided either at an amount equal to (a) 12 month expected losses; or (b) lifetime expected losses. If the credit risk of the financial instrument has not increased significantly since inception, then an amount equal to 12 month expected loss is provided. In other cases, lifetime credit losses shall be provided. For trade receivables with a significant financing component a simplified approach is available, whereby an assessment of increase in credit risk need not be performed at each reporting date. Instead, an entity can choose to provide for the expected losses based on lifetime expected losses. The Group has chosen to avail the option of lifetime expected credit losses ("ECL"). For trade receivables with no significant financing component, an entity is required to follow lifetime ECL.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of profit or loss and other comprehensive income. Commission income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the consolidated statement of profit or loss and other comprehensive income.

Financial liabilities

Initial measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through consolidated statement of profit or loss and other comprehensive income, loans and borrowings and payables, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of long term loans and payables, net of directly attributable transaction costs. The Group's financial liabilities include accounts payable and accruals and term loans.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Financial liabilities (continued)

Classification and subsequent measurement
An entity shall classify all financial liabilities as subsequently measured at amortized cost, except for:

a) financial liabilities at fair value through consolidated statement of profit or loss and other comprehensive income.
b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
c) financial guarantee contracts.
d) commitments to provide a loan at a below-market commission rate.
e) contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies. Such contingent consideration shall subsequently be measured at fair value with changes recognized in consolidated statement of profit or loss and other comprehensive income.

All of the Group's financial liabilities are subsequently measured at amortized cost using the EIR method, if applicable. Gains and losses are recognized in the consolidated statement of profit or loss and other comprehensive income when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the consolidated statement of profit or loss and other comprehensive income.

Reclassification
The Group cannot reclassify any financial liability.

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

Disclosures in relation to the initial application of IFRS 9

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. The date of initial application (i.e., the date on which the Group has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2016. Accordingly, the Group has applied the requirements of IFRS 9 to instruments that have not been derecognized as at 1 January 2016.

At the date of initial application i.e. 1 January 2016, there were no classification adjustments of financial assets and financial liabilities under IFRS 9 and IAS 39. However, accounts receivable balance was reduced by SR 10.5 million, as a result of change in measurement basis under IFRS 9 and IAS 39.

There were no financial assets or financial liabilities which the Group had previously designated as at FVTPL under IAS 39 that were subject to reclassification, or which the Group has elected to reclassify upon the application of IFRS 9. There were no financial assets or financial liabilities which the Group has elected to designate as at FVTPL at the date of initial application of IFRS 9.

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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, which are subject to an insignificant risk of changes in value.

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.

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of profit or loss and other comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost in the consolidated statement of profit or loss and other comprehensive income.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Employee benefits

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

Defined benefit plans
The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefits that employees have earned in the current and prior periods and discounting that amount. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses are recognized immediately in OCI. Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. Net interest expense and other expenses related to defined benefit plans are recognized in the consolidated statement of profit or loss and other comprehensive income.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in the consolidated statement of profit or loss and other comprehensive income.

For the liability relating to employees' terminal benefits, the actuarial valuation process takes into account the provisions of the Saudi Arabian Labour Law as well as the Group's policy.

Earnings per share (EPS)
Basic EPS is calculated by dividing the net income for the period attributable to equity holders of the Parent Company by the weighted average number of shares outstanding during the year.

Diluted EPS is calculated by dividing the profit attributable to equity holders of the Parent Company (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. Since the Group does not have any convertible shares, therefore, the basic EPS equals the diluted EPS.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

i) engaged in business activities from which it may earn revenue and incur expenses including revenues and expenses that relate to transactions with any of the Group's other components;
ii) the results of its operations are continuously analyzed by chief operating decision maker in order to make decisions related to resource allocation and performance assessment; and
iii) for which financial information is discretely available.

For further details of business segments, refer note 30.

A geographical segment is engaged in producing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. Since the Group operates in the Kingdom of Saudi Arabia only, hence, no geographical segments are being presented in these consolidated financial statements.

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 16 Leases
The IASB has issued a new standard for the recognition of leases. This standard will replace:

- IAS 17 – 'Leases'
- IFRIC 4 – 'Whether an arrangement contains a lease'
- SIC 15 – 'Operating leases – Incentives'
- SIC-27 – 'Evaluating the substance of transactions involving the legal form of a lease'

Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessee to recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and lease assets; however, this exemption can only be applied by lessee.

Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The standard is not expected to have any major impact on the Group. The mandatory date for adoption for the standard is 1 January 2019.

Lessees will also be required to re-measure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2018, the Group plans to assess the potential effect of IFRS 16 on its consolidated financial statements.

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IAS 40 Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is an evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date.

The amendments are effective for annual periods beginning on or after 1 January 2018. Retrospective application in accordance with IAS 8 is only permitted if that is possible without the use of hindsight. Early application of the amendments is permitted and must be disclosed. The Group is currently assessing the impact of the amendment to IAS 40.

6. FIRST-TIME ADOPTION OF IFRS

These are the Group's first annual consolidated financial statements, prepared in accordance with IFRS as issued by the IASB and endorsed in the Kingdom of Saudi Arabia together with other standards and pronouncements that are issued by the SOCPA. For all periods up to and including the year ended 31 December 2016, the Group prepared its consolidated financial statements in accordance with the Generally Accepted Accounting Principles ("GAAP") issued by SOCPA ("SOCPA GAAP").

Accordingly, the Group has prepared consolidated financial statements which comply with IFRS applicable as at 31 December 2017, together with the comparative period data for the year ended 31 December 2016. In preparing the consolidated financial statements, the Group's opening statement of consolidated financial position was prepared as at 1 January 2016, i.e., the Group's date of transition for IFRS.

These consolidated financial statements have been prepared in accordance with the accounting policies described in note 4, except for the exemption availed by the Group in preparing these consolidated financial statements in accordance with IFRS 1 – First time adoption of International Financial Reporting Standards from full retrospective application of IFRS.

In line with IFRS 1, the Group has optional exemption, related to fair value measurement of financial assets or financial liabilities at initial recognition, to carry forward SOCPA amount as on the transition date. The Group has used this exemption and applied fair value accounting on retention money for transactions entered into subsequent to transition date.

In preparing its opening IFRS consolidated statement of financial position, as at 1 January 2016, and the consolidated financial statements for the year ended 31 December 2016, the Group has analyzed the impact and has made following adjustments to the amounts reported previously in the consolidated financial statements prepared in accordance with the SOCPA GAAP.

6. FIRST-TIME ADOPTION OF IFRS (continued)

The following is a reconciliation of the Group's consolidated statement of financial position reported in accordance with the SOCPA GAAP to its consolidated statement of financial position under IFRS as endorsed in KSA as at 1 January 2016:

	Note	*SOCPA GAAP as at 1 January 2016 SR' 000*	*Re-measurements SR' 000*	*IFRS as at 1 January 2016 SR'000*
ASSETS				
NON-CURRENT ASSETS				
Property and equipment	6(a), (e) & (f)	5,495,223	(1,629,880)	3,865,343
Investment properties	6(a) & (f)	5,217,389	(13,972)	5,203,417
Intangible assets	6(b)	-	20,389	20,389
Investment in equity accounted investees		2,345,651	(4,172)	2,341,479
Employees' receivable - Home Ownership Scheme		34,530	-	34,530
Deferred costs	6(c)	5,857	(5,857)	-
TOTAL NON-CURRENT ASSETS		**13,098,650**	**(1,633,492)**	**11,465,158**
CURRENT ASSETS				
Current portion of employees' receivable - Home Ownership Scheme		2,126	-	2,126
Development properties	6(e)	1,575,841	(504,713)	1,071,128
Accounts receivables and other current assets	6(h)	358,322	(10,296)	348,026
Murabaha term deposits with banks		1,012,979	-	1,012,979
Cash and cash equivalents		1,898,851	-	1,898,851
TOTAL CURRENT ASSETS		**4,848,119**	**(515,009)**	**4,333,110**
Assets held for sale		90,891	-	90,891
TOTAL ASSETS		**18,037,660**	**(2,148,501)**	**15,889,159**
EQUITY AND LIABILITIES				
EQUITY				
Share capital		8,500,000	-	8,500,000
Statutory reserve		1,869	-	1,869
Retained earnings / (accumulated losses)		16,820	(1,438,943)	(1,422,123)
Effect of reducing the ownership percentage in a subsidiary		(86)	-	(86)
Equity attributable to the equity holders of the Parent Company		**8,518,603**	**(1,438,943)**	**7,079,660**
Non-controlling interests		(1,908)	(12,327)	(14,235)
TOTAL EQUITY		**8,516,695**	**(1,451,270)**	**7,065,425**

6. FIRST-TIME ADOPTION OF IFRS (continued)

	Note	*SOCPA GAAP as at 1 January 2016 SR' 000*	*Re-measurements SR' 000*	*IFRS as at 1 January 2016 SR'000*
LIABILITIES				
NON-CURRENT LIABILITIES				
Long term loans		7,100,000	-	7,100,000
Deferred contribution	6(e)	1,496,629	(1,496,629)	-
Employees' terminal benefits	6(d)	23,117	8,075	31,192
Unearned financing component on long term receivables	6(e)	-	25,447	25,447
Unearned interest income - Home Ownership Scheme		6,158	-	6,158
TOTAL NON-CURRENT LIABILITIES		**8,625,904**	**(1,463,107)**	**7,162,797**
CURRENT LIABILITIES				
Amount billed in excess of work done	6(e)	-	773,640	773,640
Zakat Payable		-	30,263	30,263
Accounts payable and accruals		895,061	(38,027)	857,034
TOTAL CURRENT LIABILITIES		**895,061**	**765,876**	**1,660,937**
TOTAL LIABILITIES		**9,520,965**	**(697,231)**	**8,823,734**
TOTAL EQUITY AND LIABILITIES		**18,037,660**	**(2,148,501)**	**15,889,159**

The following is a reconciliation of the Group's consolidated statement of financial position reported in accordance with the SOCPA GAAP to its consolidated statement of financial position under IFRS as endorsed in KSA as at 31 December 2016:

	Note	*SOCPA GAAP as at 31 December 2016 SR' 000*	*Re-measurements SR' 000*	*IFRS as at 31 December 2016 SR'000*
ASSETS				
NON-CURRENT ASSETS				
Property and equipment	6(a), (e) & (f)	7,035,435	(2,372,397)	4,663,038
Investment properties	6(a) & (f)	4,997,076	60,145	5,057,221
Intangible assets	6(b)	-	19,450	19,450
Investment in equity accounted investees		2,389,458	(4,172)	2,385,286
Employees' receivable - Home Ownership Scheme		69,774	-	69,774
Deferred costs	6(c)	4,602	(4,602)	-
Other long term receivable		48,119	-	48,119
TOTAL NON-CURRENT ASSETS		**14,544,464**	**(2,301,576)**	**12,242,888**

6. FIRST-TIME ADOPTION OF IFRS (continued)

	Note	*SOCPA GAAP as at 31 December 2016 SR' 000*	*Re-measurements SR' 000*	*IFRS as at 31 December 2016 SR'000*
CURRENT ASSETS				
Current portion of employees' receivable – Home Ownership Scheme		4,121	-	4,121
Unbilled revenue	6(e)	-	90,723	90,723
Development properties	6(e)	1,549,948	(56,472)	1,493,476
Accounts receivables and other current assets	6(h)	578,367	(14,482)	563,885
Murabaha term deposits with banks		997,000	-	997,000
Cash and cash equivalents		1,177,396	-	1,177,396
TOTAL CURRENT ASSETS		**4,306,832**	**19,769**	**4,326,601**
TOTAL ASSETS		**18,851,296**	**(2,281,807)**	**16,569,489**
EQUITY AND LIABILITIES				
EQUITY				
Share capital		8,500,000	-	8,500,000
Statutory reserve		11,536	-	11,536
Retained earnings / (accumulated losses)		103,826	(819,009)	(715,183)
Effect of reducing the ownership percentage in a subsidiary		(86)	-	(86)
Equity attributable to the equity holders of the Parent Company		**8,615,276**	**(819,009)**	**7,796,267**
Non-controlling interests		(4,503)	(7,365)	(11,868)
TOTAL EQUITY		**8,610,773**	**(826,374)**	**7,784,399**
LIABILITIES				
NON-CURRENT LIABILITIES				
Long term loans		7,500,000	-	7,500,000
Deferred contribution	6(e)	1,523,924	(1,523,924)	-
Employees' terminal benefits	6(d)	32,105	11,100	43,205
Unearned financing component on long term receivables	6(e)	-	63,180	63,180
Unearned interest income - Home Ownership Scheme		14,336	-	14,336
TOTAL NON-CURRENT LIABILITIES		**9,070,365**	**(1,449,644)**	**7,620,721**
CURRENT LIABILITIES				
Accounts payable and accruals		1,170,158	(35,108)	1,135,050
Zakat payable		-	29,319	29,319
TOTAL CURRENT LIABILITIES		**1,170,158**	**(5,789)**	**1,164,369**
TOTAL LIABILITIES		**10,240,523**	**(1,455,433)**	**8,785,090**
TOTAL EQUITY AND LIABILITIES		**18,851,296**	**(2,281,807)**	**16,569,489**

6. FIRST-TIME ADOPTION OF IFRS (continued)

The following is a reconciliation of the Group's consolidated statement of income reported in accordance with the SOCPA GAAP to its consolidated statement of profit or loss and other comprehensive income under IFRS as endorsed in KSA for the year ended 31 December 2016:

	Note	*SOCPA GAAP 31 December 2016 SR'000*	*Re-measurements SR'000*	*IFRS 31 December 2016 SR'000*
Revenue	6(e) & (g)	1,139,827	1,127,944	2,267,771
Cost of revenue		(672,909)	(420,698)	(1,093,607)
GROSS PROFIT		**466,918**	**707,246**	**1,174,164**
EXPENSES				
Selling and marketing	6(h)	(121,687)	(3,339)	(125,026)
General and administration		(288,001)	2,029	(285,972)
Impairment loss		(44,016)	-	(44,016)
Depreciation	6 (a), (e) & (f)	(56,689)	(71,472)	(128,161)
Amortisation		(1,255)	(13,836)	(15,091)
(LOSS) / PROFIT FROM MAIN OPERATIONS		**(44,730)**	**620,628**	**575,898**
OTHER INCOME / (EXPENSES)				
Murabaha deposit income		51,332	(33,182)	18,150
Financial charges		(82,017)	33,233	(48,784)
Share of results of equity accounted investees		(1,983)	-	(1,983)
Other income		191,476	7,293	198,769
PROFIT FOR THE YEAR BEFORE ZAKAT		**114,078**	**627,972**	**742,050**
Zakat		(20,000)	-	(20,000)
NET PROFIT FOR THE YEAR		**94,078**	**627,972**	**722,050**
OTHER COMPREHENSIVE LOSS				
Items that will not be reclassified to consolidated statement of profit or loss in subsequent periods:				
Re-measurement loss on defined benefit plans	6.1	-	(3,076)	(3,076)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**94,078**	**624,896**	**718,974**
NET PROFIT FOR THE YEAR ATTRIBUTABLE TO:				
Equity holders of the parent		96,673	623,010	719,683
Non-controlling interests		(2,595)	4,962	2,367
		94,078	**627,972**	**722,050**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:				
Equity holders of the parent		96,673	619,934	716,607
Non-controlling interests		(2,595)	4,962	2,367
		94,078	**624,896**	**718,974**

6. FIRST-TIME ADOPTION OF IFRS (continued)

6.1Other comprehensive loss

Under IFRS, employees' terminal benefits ("ETB") are required to be calculated using actuarial assumptions. Other comprehensive loss represents the re-measurement loss arising from experience adjustments and changes in actuarial assumptions occurred during the year. This adjustment is the result of IFRS transition only and there was no such item in the consolidated statement of income for the year ended 31 December 2016 presented under the SOCPA GAAP. Such adjustments will not be reclassified to the consolidated statement of profit or loss in subsequent periods.

6.2 Estimates

The estimates at 1 January 2016 and at 31 December 2016 are consistent with those made for the same dates in accordance with the SOCPA GAAP (after adjustments to reflect any differences in accounting policies) apart from the employees' terminal benefits where application of SOCPA GAAP did not require estimation.

The estimates used by the Group to present these amounts in accordance with the IFRS reflect conditions at 1 January 2016, the date of transition to IFRS and as at 31 December 2016.

6.3Cash flows

The impact on cash flows and on earnings per share were:

	SOCPA GAAP as at 31 December 2016 SR'000	*IFRS as at 31 December 2016 SR'000*	*Difference SR'000*
Net cash from operating activities	302,439	(66,147)	(368,586)
Net cash used in investing activities	(1,423,894)	(1,093,041)	330,853
Net cash from financing activities	400,000	437,733	37,733
Per ordinary share in SR - net income / (loss)	0.11	0.85	0.74

Notes to the reconciliation of consolidated statement of financial position, as at 1 January 2016 and 31 December 2016, and consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016, are given below:

6(a) Property and equipment and investment properties

Under the IFRS, property and equipment and investment properties need to be componentized and their useful lives separately identified. Historically, there was no such requirement under the SOCPA GAAP. Accordingly, an assessment was made by the Company which resulted in adjusted accumulated depreciation and retained earnings on the IFRS transition date reflecting the change in classification and useful lives. Additionally, depreciation for the year ended 31 December 2016, of property and equipment and investment properties was increased by SR 14.9 million and SR 7.6 million, respectively.

6(b) Intangible assets

An amount of SR 20 million, as at 1 January 2016, has been reclassified from property and equipment to intangible assets representing software that were previously classified as part of property and equipment under the SOCPA GAAP.

6(c) Deferred costs

Under the SOCPA GAAP, the Group capitalized certain pre-operating expenses and amortized this on a straight-line basis over seven years. As such, the cost does not qualify for recognition as an asset under IFRS, accordingly this asset has been derecognized against retained earnings.

6. FIRST-TIME ADOPTION OF IFRS (continued)

6(d) Employees' terminal benefits

Under the IFRS, employees' terminal benefits are required to be calculated using actuarial assumptions. Historically, the Group has calculated these obligations in accordance with the provisions of the Saudi Arabian Labor Law. This change has resulted in an increase in the EOSB liability on the transition date and as at 31 December 2016 and a decrease in retained earnings and income on the transition date and for the year ended 31 December 2016.

6(e) Sales and other income

As mentioned in note 4, the Group has reviewed the impact of IFRS 15 and has elected to early adopt IFRS 15 with effect from 1 January 2017, as the Group considers that it better reflects the business performance of the Group. The Group has opted for full retrospective application permitted by IFRS 15 upon adoption of the new standard. Full retrospective application requires the recognition of the cumulative impact of adoption on all contracts not yet completed as at 1 January 2016 in the form of an adjustment to the opening balance of retained earnings as at 1 January 2016. As a result of early adoption of IFRS, following are the major impacts at transition date:

- Decrease in retained earnings by SR 925 million, which is primarily due to revenue recognition over period of time under IFRS 15.
- Decrease in retained earnings by SR 25 million, which is due to carving out of significant financing portion from the selling price.

6(f) Impairment of non-current assets

Under the SOCPA GAAP, non-current assets were reviewed for impairment when events or changes in circumstances indicated that their carrying value might exceed the sum of the undiscounted future cash flows expected from use and eventual disposal. Under IFRS, impairment of assets is based on the discounted future cash flows expected from use and eventual disposal of the non-current assets. At the date of transition to IFRS, as a result of the change in methodology, the Group has recorded an impairment loss of SR 457 million as at 1 January 2016. This amount has been recognized against retained earnings.

6(g) Rental income from investment properties

Under IFRS, all incentives for the agreement of a new or renewed operating lease, shall be recognized as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive's nature or form or the timing of payments. Accordingly, the Group has started recognizing revenue on a straight-line basis including the lease free period.

6(h) Expected credit loss model

Under the SOCPA GAAP, an estimate for doubtful receivables was made when collection of the full amount was no longer probable. However, IFRS 9 requires recognition of expected impairment loss equal to the lifetime expected credit losses ("ECL") if the credit risk on trade receivables has increased significantly since initial recognition. Accordingly, adjustments have been made in these consolidated financial statements to comply with the ECL model requirements in all the periods presented.

7. REVENUE AND COST OF REVENUE

	31 December 2017 SR' 000	*31 December 2016 SR' 000*
Revenue		
Sale of properties	**1,215,665**	2,038,369
Others	**222,311**	229,402
	1,437,976	2,267,771
Cost of revenue		
Cost of properties	**(284,818)**	(827,190)
Others	**(330,804)**	(266,417)
	(615,622)	(1,093,607)

8. SELLING AND MARKETING EXPENSES

	31 December 2017 SR'000	*31 December 2016 SR'000*
Employee costs	**24,853**	37,935
Branding and launch expenses	**16,463**	39,683
Provision for doubtful debts (note 17)	**7,835**	21,885
Advertising and promotional expenses	**4,529**	5,646
Public relations	**3,006**	16,260
Others	**6,494**	3,617
	63,180	125,026

9. GENERAL AND ADMINISTRATION EXPENSES

	31 December 2017 SR'000	*31 December 2016 SR'000*
Employee costs	**174,440**	213,226
Professional charges	**36,752**	42,379
Communication and office expenses	**14,915**	11,451
Rent	**6,028**	5,828
Facility and city management services	**3,852**	5,171
Repairs and maintenance	**2,839**	2,929
Others	**13,675**	4,988
	252,501	285,972

10. OTHER INCOME

	31 December 2017 SR'000	*31 December 2016 SR'000*
Forfeiture of non-refundable deposit (see note (a) below)	-	45,221
Compensation from customer (see note (b) below)	-	96,238
Reimbursement of expenses (see note (c) below)	**54,469**	29,997
Amortization of unearned interest (see note (d) below)	**35,376**	11,092
Reversal of accruals no longer required	**7,926**	5,423
Others	**5,087**	10,798
	102,858	198,769

a) During 2016, the Parent Company forfeited non-refundable deposits, amounting to SR 45 million, received from potential buyers against sale of assets, classified as held for sale.

b) Compensation in respect of cancellation of development lease agreement by a customer, for the year ended 31 December 2016, amounting to SR 96 million, based on court decision. Out of the total amount, SR 24 million was received during the year ended 31 December 2016 and additional SR 24 million has been received by the Company during the year ended 31 December 2017. The balance receivable within twelve months, amounting to SR 24 million, is classified as current asset under "Accounts receivables and other current assets". The remaining SR 24 million which will be received after one year, as per the payment schedule, is classified as a long term receivable in the consolidated statement of financial position.

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 54.46 million (2016: SR 29.9 million), incurred during the year, has been reimbursed and accounted for as an other income accordingly.

d) Unwinding of interest income on significant financing component amounting to SR 35.3 million (31 December 2016: SR 11 million).

11. EARNINGS PER SHARE

Basic EPS is calculated by dividing the profit or loss for the year attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year. The calculation of diluted earnings per share ('EPS') is not applicable to the Group. Also, no separate earning per share calculation from continuing operations has been presented since there were no discontinued operations during the year.

The earnings per share calculation is given below:

	31 December 2017	*31 December 2016*
Profit attributable to ordinary equity holders of the parent (SR'000)	**240,921**	719,683
Weighted average number of ordinary shares ('000)	**850,000**	850,000
Earnings per share (Saudi Riyals) – Basic and Diluted	**0.28**	0.85

12. PROPERTY AND EQUIPMENT

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Buildings	20-30 years	Leasehold improvements	2 years
Heavy equipment & machinery	5-10 years	Furniture and fixtures	4 years
Office equipment	3 years	Motor vehicles	4 years
Infrastructure assets	10-30 years		

	Freehold land SR'000	*Buildings SR'000*	*Leasehold improvements SR'000*	*Heavy equipment & machinery SR'000*	*Furniture and fixtures SR'000*	*Office equipment SR'000*	*Motor vehicles SR'000*	*Infrastructure assets SR'000*	*Capital work in progress SR'000*	***Total 2017 SR'000***
Cost:										
At the beginning of the year	133,105	817,990	113,586	39,118	86,858	51,145	9,337	2,089,962	1,890,359	**5,231,460**
Additions	-	1,711	15,583	11,142	7,011	8,440	946	2,036	605,141	**652,010**
Transfers	-	146,526	-	-	-	-	-	238,551	(385,077)	-
Transfer from investment properties (note 13)	2,178	-	-	-	-	-	-	-	-	**2,178**
Impairment (note (e) below)	-	-	-	-	-	-	-	-	(48,573)	**(48,573)**
At the end of the year	135,283	966,227	129,169	50,260	93,869	59,585	10,283	2,330,549	2,061,850	**5,837,075**
Depreciation:										
At the beginning of the year	-	164,297	29,299	19,618	45,090	34,613	4,877	270,628	-	**568,422**
Charge for the year	-	38,729	9,600	5,902	15,695	6,499	1,813	98,982	-	**177,220**
At the end of the year	-	203,026	38,899	25,520	60,785	41,112	6,690	369,610	-	**745,642**
Net book value										
At 31 December 2017	**135,283**	**763,201**	**90,270**	**24,740**	**33,084**	**18,473**	**3,593**	**1,960,939**	**2,061,850**	**5,091,433**

12. PROPERTY AND EQUIPMENT (continued)

	Freehold land SR'000	*Buildings SR'000*	*Leasehold improvements SR'000*	*Heavy equipment & machinery SR'000*	*Furniture and fixtures SR'000*	*Office equipment SR'000*	*Motor vehicles SR'000*	*Infrastructure assets SR'000*	*Capital work in progress SR'000*	*Total 2016 SR'000*
Cost:										
At the beginning of the year	132,266	771,663	29,200	28,233	48,298	35,880	4,501	1,587,551	1,649,342	4,286,934
Additions	-	780	11,268	512	3,096	4,354	4,485	1,530	940,997	967,022
Transfers	-	48,404	73,118	10,373	35,464	10,911	351	500,881	(679,502)	-
Transfer from investment properties (note 13)	839	-	-	-	-	-	-	-	117,588	118,427
Transfers to development properties (note 16)	-	-	-	-	-	-	-	-	(138,066)	(138,066)
Disposals	-	(2,857)	-	-	-	-	-	-	-	(2,857)
At the end of the year	133,105	817,990	113,586	39,118	86,858	51,145	9,337	2,089,962	1,890,359	5,231,460
Depreciation:										
At the beginning of the year	-	132,574	22,318	16,389	29,082	28,317	3,611	189,300	-	421,591
Charge for the year	-	33,380	6,981	3,229	16,008	6,296	1,266	81,328	-	148,488
Relating to disposals	-	(1,657)	-	-	-	-	-	-	-	(1,657)
At the end of the year	-	164,297	29,299	19,618	45,090	34,613	4,877	270,628	-	568,422
Net book value										
At 31 December 2016	133,105	653,693	84,287	19,500	41,768	16,532	4,460	1,819,334	1,890,359	4,663,038
At 1 January 2016	132,266	639,089	6,882	11,844	19,216	7,563	890	1,398,251	1,649,342	3,865,343

12. PROPERTY AND EQUIPMENT (continued)

a) Depreciation charge for the year has been allocated as follows:

	31 December 2017 SR'000	*31 December 2016 SR'000*
Cost of revenue	**24,852**	20,327
Other expenses	**152,368**	128,161
	177,220	148,488

b) Capital work in progress mainly represents construction costs in respect of the infrastructure and other projects at the King Abdullah Economic City.

c) Capital work in progress includes advances against services, amounting to SR 122 million (2016: SR 137.6 million).

d) Freehold land includes land, amounting to SR 135 million (2016: SR 133 million), related to infrastructure assets.

e) During the year, the Group has recorded an impairment loss of SR 48 million (2016: SR Nil) in respect of the projects, which are not actively pursued any further.

f) Property and equipment of the gross carrying amount of SR 140 million (2016: SR 108.5 million) are fully depreciated but are still in use.

g) As at 31 December 2017, an amount of SR 119.8 million (2016: SR 75 million) was capitalized as cost of borrowing for the construction of property and equipment.

13. INVESTMENT PROPERTIES

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Buildings	20-30 years	Infrastructure assets	10-30 years
Leasehold improvements	2 years		

	Land *SR'000*	*Buildings* *SR'000*	*Leasehold improvements* *SR'000*	*Infrastructure assets* *SR'000*	*Capital work-in-progress* *SR'000*	***Total 2017*** ***SR'000***
Cost:						
At the beginning of the year	2,862,092	798,005	945	450,517	1,058,062	**5,169,621**
Additions	-	-	-	-	88,028	**88,028**
Transfers	-	210,462	-	-	(210,462)	-
Transfer to development properties (note 16)	(2,268)	-	-	-	-	**(2,268)**
Transfer to property and equipment (note 12)	(2,178)	-	-	-	-	**(2,178)**
At the end of the year	2,857,646	1,008,467	945	450,517	935,628	**5,253,203**
Depreciation:						
At the beginning of the year	-	67,226	945	44,229	-	**112,400**
Charge for the year	-	35,182	-	20,182	-	**55,364**
At the end of the year	-	102,408	945	64,411	-	**167,764**
Net book value						
At 31 December 2017	**2,857,646**	**906,059**	-	**386,106**	**935,628**	**5,085,439**

13.INVESTMENT PROPERTIES (continued)

	Land *SR'000*	*Buildings* *SR'000*	*Leasehold improvements* *SR'000*	*Infrastructure assets* *SR'000*	*Capital work-in-progress* *SR'000*	*Total 2016* *SR'000*
Cost:						
At the beginning of the year	2,865,387	719,907	945	433,673	1,247,147	5,267,059
Additions	-	1,108	-	1,857	136,855	139,820
Transfers	-	-	-	14,987	(14,987)	-
Transfer (to) / from development properties, net (note 16)	(2,456)	76,990	-	-	(193,365)	(118,831)
Transfer to property and equipment (note 12)	(839)	-	-	-	(117,588)	(118,427)
At the end of the year	2,862,092	798,005	945	450,517	1,058,062	5,169,621
Depreciation:						
At the beginning of the year	-	37,675	945	25,022	-	63,642
Charge for the year	-	29,551	-	19,207	-	48,758
At the end of the year	-	67,226	945	44,229	-	112,400
Net book value						
At 31 December 2016	2,862,092	730,779	-	406,288	1,058,062	5,057,221
At 1 January 2016	2,865,387	682,232	-	408,651	1,247,147	5,203,417

13. INVESTMENT PROPERTIES (continued)

a) Greenfield land, measuring approximately 168 million square meters, has been earmarked for the master development of the KAEC. This includes land measuring approximately 37 million square meters which was contributed by a shareholder as part of its capital contribution for an agreed sum of SR 1,700 million in lieu of shares of the same value in the Company (note 21). The specific allocation of the Greenfield land to be used by different projects, which could be for sale or rental, has not yet been completed. Therefore, the Greenfield land and associated costs, amounting to SR 2,858 million (2016: SR 3,035 million), has been classified as investment property. No depreciation has been charged as these comprise only freehold land. Greenfield land includes 24.7 million square meters pledged in favour of the Ministry of Finance against a long-term loan of SR 5,000 million (note 24(a)). Loans obtained from commercial banks are also secured against KAEC Greenfield land. However, legal formalities pertaining to security of such additional borrowings are in progress (note 24(b)). Greenfield land, measuring 13.34 million square meters, has been earmarked for lease to industrial customers.

b) The fair value of the Group's investment property, as at 31 December 2017, has been arrived on the basis of the valuation exercise carried out by ValuStrat (Khabeer Altathmen Alaqaria), an independent valuer not related to the Group. ValuStrat is a firm licensed by the Taqeem (Saudi Authority for Accredited Valuers) and is also regulated by the Royal Institution of Chartered Surveyors ("RICS"). Valustrat holds appropriate qualifications and relevant experience in assessing the valuation for the relevant land and properties.

To determine the fair value of land with an undetermined future use, the valuer has conducted a dynamic residual valuation approach by calculating the maximum price that a hypothetical developer and investor would pay for the subject land to achieve acceptable hurdle rates based on the highest and best use of the land and in line with current market conditions. For other properties, the fair value has been determined based on the market comparative approach that reflects recent transaction prices for similar properties or capitalization of net income method. For the net income method, the market rentals of all lettable properties are assessed by reference to the rentals achieved for the same properties as well as similar properties in the neighbourhood. The capitalization rate is adopted by reference to the yield rates observed by the valuers for similar properties in the locality and adjusted based on the valuers' knowledge of the factors specific to the respective properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The Group uses the following hierarchy for determining and disclosing the fair values of its investment properties by valuation techniques:

	Level 1 *SR'000*	*Level 2* *SR'000*	*Level 3* *SR'000*	*Total* *SR'000*
2017	**-**	**53,972,099**	**-**	**53,972,099**

Any significant movement in the assumptions used for fair valuation of investment properties such as discount rate, yield, rental growth etc. would result in significantly lower / higher fair value of these assets.

c) Following is the breakup of investment properties, held for various purposes:

	31 December 2017 ***SR'000***	*31 December 2016* *SR'000*	*1 January 2016* *SR'000*
Rental income	**2,227,008**	2,021,728	2,167,486
Currently undetermined future use	**2,858,431**	3,035,493	3,035,931
	5,085,439	5,057,221	5,203,417

d) As at 31 December 2017, an amount of SR 26.3 million (2016: 16.8 million) was capitalized as cost of borrowing for the construction of investment properties.

14. INTANGIBLE ASSETS

Intangible assets represent software that was previously classified as part of property and equipment under the SOCPA GAAP.

The movement in the intangible assets are as follows:

	31 December 2017 SR'000	*31 December 2016 SR'000*
Cost:		
At the beginning of the year	**74,429**	60,277
Additions	**8,817**	14,152
At the end of the year	**83,246**	74,429
Amortization:		
At the beginning of the year	**(54,979)**	(39,888)
Charge for the year	**(13,069)**	(15,091)
At the end of the year	**(68,048)**	(54,979)
Net book value	**15,198**	19,450

15. INVESTMENT IN EQUITY ACCOUNTED INVESTEES

	Effective ownership interest (%)			*Balance as at*		
	31 December 2017	*31 December 2016*	*1 January 2016*	***31 December 2017 SR'000***	*31 December 2016 SR'000*	*1 January 2016 SR'000*
Investment in Port Development Company ("PDC") (see note (a) below)	**50%**	50%	50%	**2,342,901**	2,339,496	2,341,479
Investment in Biyoutat Progressive Company for Real Estate Investment & Development ("Biyoutat") (see note (b) below)	**20%**	20%	-	**45,790**	45,790	-
				2,388,691	2,385,286	2,341,479

The equity accounted investees do not have any conventional investments or borrowings as at 31 December 2017 and 2016. There has been no interest income for the years ended 31 December 2017 and 2016.

a) PORT DEVELOPMENT COMPANY

Movement in investment in Port Development Company ("PDC") for the year ended is as follows:

	2017 SR'000	*2016 SR'000*
Balance at the beginning of the year	**2,339,496**	2,341,479
Share of results for the year, net of zakat charge	**31,462**	(1,983)
Share of other comprehensive loss	**(28,057)**	-
Balance at the end of the year	**2,342,901**	2,339,496

Quantitative information about each of the associate is as follows:

	Port Development Company		
	31 December 2017 SR'000	*31 December 2016 SR'000*	*1 January 2016 SR'000*
Non-current assets	**7,842,725**	7,245,037	5,962,735
Current assets	**297,435**	141,242	206,516
Non-current liabilities	**2,373,250**	1,792,112	3,274
Current liabilities	**491,286**	328,690	896,614
Equity	**5,275,624**	5,265,477	5,269,363
Group's share in equity – 50% (2016: 50 %, 1 January 2016: 50 %)	**2,637,812**	2,632,739	2,634,682
Elimination of share of profit on sale of land and commission income	**(287,714)**	(287,714)	(287,714)
Adjustments related to piecemeal acquisition and share of zakat	**(7,197)**	(5,529)	(5,489)
Group's carrying amount of the investment	**2,342,901**	2,339,496	2,341,479

15. INVESTMENT IN EQUITY ACCOUNTED INVESTEES (continued)

a)PORT DEVELOPMENT COMPANY (continued)

	31 December 2017 SR SR'000	*31 December 2016 SR SR'000*
Revenue	**311,118**	147,895
Cost of revenue	**(139,847)**	(108,922)
GROSS PROFIT	**171,271**	38,973
EXPENSES		
General and administrative	**(83,193)**	(40,160)
Marketing	**(783)**	(441)
INCOME / (LOSS) FROM MAIN OPERATIONS	**87,295**	(1,628)
Share of loss of an equity accounted investee	**(1,631)**	(1,611)
Other income	**28,309**	11,321
Financial charges	**(47,712)**	(11,966)
NET INCOME / (LOSS) FOR THE YEAR	**66,261**	(3,884)
Other comprehensive loss to be reclassified to profit or loss in subsequent years	**(56,114)**	-
Total comprehensive income / (loss) for the year	**10,147**	(3,884)
Group's share of profit / (loss) for the year, net of related zakat charge	**31,462**	(1,983)
Group's share of other comprehensive loss for the year	**(28,057)**	-

On 14 Jumada Awal 1431H (corresponding to 29 April 2010), the Port Development Company ("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 has provided a corporate guarantee along with promissory notes to a commercial bank, limited to SR 1,350 million plus any murabaha profits due to be paid by the PDC, to allow PDC to secure Shariah compliant Murabaha facility to partially finance the construction costs of the Port. Moreover, the subject loan is also secured by pledge of the shares of the Company in PDC.

The Company has provided a corporate guarantee to a commercial bank to allow PDC to secure Shariah compliant commodity Murabaha facilities. During the year ended 31 December 2017, PDC has secured a Murabaha facility, amounting to SR 150 million, from commercial banks to finance its working capital requirements. In this connection, the Company has provided promissory notes, amounting to SR 75 million, plus any murabaha profits due to be paid by the PDC.

During the year ended 31 December 2017, PDC has used derivative financial instruments (interest rate swaps) to hedge its risks associated with interest rate fluctuations and entered into interest rate swaps (the "Swap Contracts"), with local commercial banks, to hedge future adverse fluctuation in interest rates on its long term loan.

15. INVESTMENT IN EQUITY ACCOUNTED INVESTEES (continued)

a) PORT DEVELOPMENT COMPANY (continued)

Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value.

PDC designated the Swap Contracts, at its outset, as a cash flow hedge. The Swap Contracts are intended to effectively convert the interest rate cash flow on the long term loan from a floating rate to a fixed rate, during the entire tenure of the loan agreements. Cash flow hedges which meet the strict criteria for hedge accounting are accounted for by taking the gain or loss on the effective portion of the hedging instrument to the other comprehensive income, while any ineffective portion is recognized immediately in the consolidated statement of profit or loss.

At 31 December 2017, the subject Swap Contracts had a negative fair value of SR 56.11 million, based on the valuation determined by a model and confirmed by PDC's bankers. Such fair value is included within non-current liabilities in the statement of financial position of PDC with a corresponding debit to its statement of changes in equity. The Group has recorded an amount of SR 28.06 million, within other comprehensive loss of the consolidated statement of profit or loss and other comprehensive income, being the portion of its share.

Amounts taken to other comprehensive income are transferred to the consolidated statement of profit or loss when the hedged transaction affects profit or loss such as when the hedged financial income or financial expense is recognized.

b) BIYOUTAT PROGRESSIVE COMPANY FOR REAL ESTATE INVESTMENT & DEVELOPMENT

During 2016, the Company entered into an arrangement with an entity owned by a Saudi local group to incorporate a new entity, namely Biyoutat, a Limited Liability Company, to build, own and manage a residential compound at KAEC.

The Company owns 20% shares in the share capital of Biyoutat. As per the Partners' agreement, the Company has also made an additional investment of SR 54 million for the development of the project. Furthermore, during 2016, the Company sold a piece of land to Biyoutat, amounting to SR 54 million. Since Biyoutat has not started its operations, the share of results of Biyoutat for the year are considered insignificant for the Group.

The movement in investment in Biyoutat during the year is as follows:

	31 December 2017 SR'000	*31 December 2016 SR'000*
Initial investment	**200**	200
Additional investment	**53,755**	53,755
Elimination of share of profit on sale of land	**(8,165)**	(8,165)
	45,790	45,790

16. DEVELOPMENT PROPERTIES

	31 December 2017 SR'000	*31 December 2016 SR'000*
Costs incurred to date	**1,493,476**	1,071,128
Additions	**561,998**	991,932
Transferred from property and equipment (note 12)	-	138,066
Transferred from investments properties (note 13)	**2,268**	118,831
	2,057,742	2,319,957
Transfer to cost of revenue (note 7)	**(284,818)**	(827,190)
Provision for development properties	**(3,526)**	709
	1,769,398	1,493,476

16. DEVELOPMENT PROPERTIES (continued)

Development properties also include land, amounting to SR 168.9 million (2016: SR 195.8 million).

As at 31 December 2017, an amount of SR 103 million (2016: 74 million) was capitalized as cost of borrowing for the construction of development properties.

17. ACCOUNTS RECEIVABLES AND OTHER CURRENT ASSETS

	31 December 2017 SR'000	*31 December 2016 SR'000*	*1 January 2016 SR'000*
Gross accounts receivable	**659,569**	497,044	304,762
Less: Provision for doubtful debts (see notes below)	**(49,696)**	(45,356)	(23,471)
	609,873	451,688	281,291
Prepayments	**33,695**	25,099	27,811
Advances to suppliers	**21,022**	21,415	9,541
Commission receivable on Murabaha term deposits	**700**	3,023	4,726
Amounts due from related parties (note 28)	**9,900**	11,713	7,540
Others	**64,089**	50,947	17,117
	739,279	563,885	348,026

a) As at 31 December 2017, accounts receivable at nominal value of SR 49.6 million (2016: SR 45.5 million) were impaired. The unimpaired accounts receivables include SR 336 million (2016: SR 302 million) which are past due, more than normal collection cycle, but not impaired. Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. Accounts receivable in respect of sale of properties are secured by promissory notes and bank guarantees, accordingly not impaired.

b) Movements in the provision for doubtful debts is as follows:

	31 December 2017 SR'000	*31 December 2016 SR'000*
At the beginning of the year	**45,356**	23,471
Provision for the year (note 8)	**7,835**	21,885
Doubtful debts written-off	**(3,495)**	-
At the end of the year	**49,696**	45,356

As at 31 December, the ageing analysis of accounts receivables, is as follows:

		Neither	***Past due but not impaired***				
	Total SR'000	***Past due nor impaired SR'000***	***< 30 days SR'000***	***30–60 days SR'000***	***61–90 days SR'000***	***91–180 days SR'000***	***> 180 days SR'000***
31 December 2017	**659,569**	**120,171**	**28,964**	**17,162**	**77,451**	**38,907**	**376,914**
31 December 2016	497,044	73,789	31,491	28,556	15,325	166,613	181,270
1 January 2016	304,762	136,485	19,620	23,869	21,588	22,179	81,021

18. MURABAHA TERM DEPOSITS WITH BANKS

	31 December 2017 SR'000	*31 December 2016 SR'000*	*1 January 2016 SR'000*
Murabaha deposits (note 19)	**1,501,910**	1,895,956	2,106,879
Short-term Murabaha deposits (note 19)	**(977,800)**	(898,956)	(1,093,900)
	524,110	997,000	1,012,979

19. CASH AND CASH EQUIVALENTS

	31 December 2017 SR'000	*31 December 2016 SR'000*	*1 January 2016 SR'000*
Cash and bank balances	**250,010**	278,440	804,951
Short-term Murabaha deposits (see note below and note 18)	**977,800**	898,956	1,093,900
	1,227,810	1,177,396	1,898,851

Murabaha term deposits are placed with commercial banks and yield commission at prevailing market rates.

The Company is required to maintain certain deposits/balances at 5% of amount collected from customers against sale of development properties which are deposited into escrow accounts. The balance as of 31 December 2017 amounted to SR 3.2 million. These deposits/balances are not under lien.

20. EMPLOYEES' RECEIVABLE – HOME OWNERSHIP SCHEME

In accordance with the Group's policy, until 31 December 2016, the Group used to sell built units to eligible employees under interest free finance lease arrangement for a period of twenty years. 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.

	31 December 2017 SR'000	*31 December 2016 SR'000*	*1 January 2016 SR'000*	***31 December 2017 SR'000***	*31 December 2016 SR'000*	*1 January 2016 SR'000*	***31 December 2017 SR'000***	*31 December 2016 SR'000*	*1 January 2016 SR'000*
	Gross receivable			***Present value of gross receivable***			***Unearned interest income***		
Current portion	**4,779**	4,121	2,126	**2,795**	2,564	1,438	**1,984**	1,557	688
Non-current portion:									
One to five years	**19,111**	16,483	8,502	**12,032**	10,983	6,094	**7,079**	5,500	2,408
Over five years	**62,920**	53,291	26,028	**51,186**	44,455	22,278	**11,734**	8,836	3,750
	82,031	69,774	34,530	**63,218**	55,438	28,372	**18,813**	14,336	6,158
	86,810	73,895	36,656	**66,013**	58,002	29,810	**20,797**	15,893	6,846

21. SHARE CAPITAL

The Parent Company's share capital is divided into 850 million shares of SR 10 each (2016: 850 million shares of SR 10 each), allocated as follows:

	2017		*2016*	
	Number of shares	***Capital SR'000***	*Number of shares*	*Capital SR'000*
Issued for cash	**680,000,000**	**6,800,000**	680,000,000	6,800,000
Issued for consideration in kind (note 13(a))	**170,000,000**	**1,700,000**	170,000,000	1,700,000
	850,000,000	**8,500,000**	850,000,000	8,500,000

22. STATUTORY RESERVE

In accordance with the updated By-laws, approved by the shareholders during April 2017, the Company must set aside 10% of its net profit in each year, after setting-off its accumulated losses, if applicable, until it has built up a reserve equal to 30% of the share capital. The Company may resolve to discontinue such transfers when the reserve totals 30% of the share capital. The reserve is not available for distribution. As of 31 December 2017, the Company was in the process of finalizing the required procedures with the Ministry of Commerce and Investment to ratify these changes. However, subsequent to year end, the Ministry of Commerce and Investment has ratified these changes in By-laws of the Company.

23. EFFECT OF REDUCING THE OWNERSHIP PERCENTAGE IN A SUBSIDIARY

During 2013, the shareholders of IZDCL resolved to change the effective shareholding interest of the Company in IZDCL to be 98% in line with other group entities. The legal formalities in this respect had been completed during the year ended 31 December 2014. Consequently, the company held 4,950 shares representing 98% (effective) of IZDCL's share capital, compared to its previous shareholding of 100% (effective) of IZDCL's capital, prior to the transaction.

Due to the decrease of the Company's shareholding in IZDCL, the Company's share in the net asset of IZDCL has decreased and amount equivalent to SR 86,379 was recognized as an un-realized loss under equity.

24. LONG TERM LOANS

	31 December 2017 SR'000	*31 December 2016 SR'000*	*1 January 2016 SR'000*
Ministry of Finance ("MoF") loan (see note (a) below)	**5,000,000**	5,000,000	5,000,000
Others (see note (b) below)	**3,000,000**	2,500,000	2,100,000
	8,000,000	7,500,000	7,100,000
Less: Current portion of long term loans (see note (b) below)	**(650,000)**	-	-
Non-current portion of long term loans	**7,350,000**	7,500,000	7,100,000

24. LONG TERM LOANS (continued)

(a) During 2011, the Parent Company received a loan of SR 5,000 million from the Ministry of Finance ("MoF") 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 Group'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 installments, commencing from June 2020, with accrued commission payable on an annual basis.

(b) During 2014, the Parent Company 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, as at 31 December 2017, amounted to SR 1,500 million (31 December 2016: SR 1,500 million). As per the terms of the agreement, the loan is repayable in eight bi-annual installments from 30 June 2018 to 31 December 2021. The installment due within twelve-month, amounting to SR 550 million is classified as a current liability. The loan is secured against part of KAEC's greenfield land, having a value of SR 3,002 million, held by the Parent Company and an order note for SR 2,500 million.

During 2015, the Parent Company signed an Islamic facility agreement with a commercial bank for SR 1,000 million that carries commission at commercial rates. The outstanding balance of the long term loan, as at 31 December 2017, amounted to SR 500 million (31 December 2016: SR nil). As per the terms of the agreement, the loan is repayable in eight bi-annual installments from 20 October 2019 to 20 April 2023. The loan is secured against part of KAEC's greenfield land, held by the Parent Company, for a total required value of SR 1,500 million, out of which 56% has already been perfected and remaining is in progress. The subject loan is further secured by an order note of SR 1,200 million.

During 2014 and 2015, the Company 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, as at 31 December 2017, amounted to SR 1,000 million (31 December 2016: 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. The installment due within twelve-month, amounting to SR 100 million is classified as a current liability. The loan facilities are secured against part of KAEC's greenfield land for a total required value of SR 3,000 million, out of which 50% has already been perfected and remaining is in progress. Moreover, the subject loan facilities are further secured by an order note of SR 1,250 million each.

25. EMPLOYEES' TERMINAL BENEFITS

General Description of the plan

The Group operates an approved unfunded employees' terminal benefit ("ETB") plan for its employees as required by the Saudi Arabian Labour Law. The movement in ETB for the year ended is as follows:

	31 December 2017 SR'000	*31 December 2016 SR'000*
Balance at the beginning of the year	**43,205**	31,192
Included in consolidated statement of profit or loss		
Current service cost	**12,205**	9,194
Interest cost	**1,728**	1,403
	13,933	10,597
Included in consolidated statement of other comprehensive income		
Actuarial loss	**46**	3,076
Benefits paid	**(4,426)**	(1,660)
Balance at the end of the year	**52,758**	43,205

The difference between employees' terminal benefits under previous SOCPA GAAP and IFRS, as at 1 January 2016, amounting to SR 8 million, is recorded in the retained earnings (note 6(d)).

Actuarial assumptions
The following were the principal actuarial assumptions applied at the reporting date:

	31 December 2017	*31 December 2016*	*1 January 2016*
Discount rate	**3.5%**	4%	4.5%
Expected rate of future salary increase			
- First three years	**4%**	4.75%	5%
- Thereafter	**4%**	4.75%	5%
Mortality rate	**1.17%**	1.17%	1.17%
Employee turnover rate	**7.50%**	7.50%	7.50%
Retirement age	**60 years**	60 years	60 years

The sensitivity of ETB, as at 31 December, to changes in the weighted principal assumptions is as follows:

Impact on ETB liability
Increase / (decrease)

		31 December 2017		*31 December 2016*	
	Change in assumption by	***Increase in rate SR'000***	***Decrease in rate SR'000***	*Increase in rate SR'000*	*Decrease in rate SR'000*
Discount rate	1%	**(4,196)**	**4,843**	(3,541)	4,265
Expected rate of future salary increase	1%	**4,768**	**(4,215)**	4,103	(3,570)
Mortality rate	10%	**(15)**	**15**	(10)	18
Employee turnover rate	10%	**(505)**	**540**	(467)	557

26. ACCOUNTS PAYABLE AND ACCRUALS

	31 December 2017 SR'000	*31 December 2016 SR'000*	*1 January 2016 SR'000*
Trade accounts payable	**201,740**	117,940	114,806
Retentions payable	**233,111**	225,160	189,540
Amounts due to related parties (note 28)	**34,187**	29,916	29,413
Amounts to be donated for charitable purposes (see note below)	**55,650**	60,323	66,756
Advances from customers	**107,900**	87,003	199,599
Accrued expenses and other payables	**121,187**	116,605	90,141
Contract cost accruals	**117,252**	375,961	91,938
Accrued financial charges	**120,955**	120,585	74,153
Unearned interest income - Home Ownership Scheme (note 20)	**1,984**	1,557	688
	993,966	1,135,050	857,034

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.

27.ZAKAT

Charge for the year

	31 December 2017 SR'000	*31 December 2016 SR'000*
Current year provision	**51,465**	20,000
Adjustment related to prior years	**86,573**	-
Charge for the year	**138,038**	20,000

The provision for the year is based on individual zakat base of the Parent company and its subsidiaries.

Movement in provision

The movement in the zakat provision is as follows:

	31 December 2017 SR'000	*31 December 2016 SR'000*
At the beginning of the year	**29,319**	30,263
Charge for the year	**138,038**	20,000
Adjustment related to prior years	**(7,926)**	-
Payments during the year	**(6,345)**	(20,944)
At the end of the year	**153,086**	29,319

27. ZAKAT (continued)

Status of assessments

The Parent Company – Emaar The Economic City
The General Authority of Zakat and Tax ("GAZT") issued Zakat assessments for the years 2006 to 2008 and claimed additional Zakat and withholding tax differences of SR 90.4 million in addition to delay penalty. The case was under review at the Bureau of Grievance ("BOG"). In compliance with the appeal procedures and without admitting the liability, the Company submitted a bank guarantee and paid under protest the withholding tax differences.

The BOG did not accept the grievance on the zakat case from the formal point of view. The Company filed a plea to the Royal court requesting the BOG to reconsider the verdict and restudy the case. The Plea was not accepted and filing of another Plea is currently under process.

The withholding tax case was also under review at the BOG. A decision was issued supporting the objection related to penalties. Subsequent to the year end, the Company has re-appealed to the BOG in respect of withholding tax differences.

The Company's zakat assessment for the years 2009 to 2011 was cleared. The Company filed the zakat returns for the years 2012 to 2016 and obtained the restricted zakat certificates.

Subsidiaries – ECIHC, IZDCL, REOM, REM, RED and EKC
ECIHC has finalized its zakat status up to the year 2012 and filed the zakat returns up to the year 2016. Unrestricted zakat certificates have been obtained up to the year 2016.

IZDCL has finalised its zakat status up to the year 2012. The GAZT issued the zakat assessment for the years 2013 to 2015 and claimed zakat differences of SR 4.6 million. IZDCL objected against the GAZT assessment. Furthermore, IZDCL filed the zakat returns up to the year 2016, and obtained the zakat certificates.

REOM and REM have filed their zakat returns for the period / years from 2013 to 2016 and obtained unrestricted zakat certificates.

RED has filed its zakat returns for the period / years from 2013 to 2016 and obtained facility letter as there was no revenue from operations.

EKC has filed the zakat return for the first period ended 31 December 2016 and obtained a facility letter as there was no revenue from operation.

28. RELATED PARTY DISCLOSURE

Related parties represent major shareholders, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Transactions with related parties were carried out in the normal course of business on terms agreed between the parties. In addition to note 15, following are the significant related party transactions during the year and the related balances:

Related party	*Nature of transactions*	*Amounts of Transactions*		*Balance as at*		
				31 December	*31 December*	*1 January*
		2017	*2016*	***2017***	*2016*	*2016*
		SR' 000	*SR' 000*	***SR' 000***	*SR' 000*	*SR' 000*
Amounts due from related						
Affiliates	Lease rentals, utilities and service charges	**8,749**	9,209	**2,194**	2,324	990
	Sale of properties	**-**	53,755	**-**	2,966	3,907
	Advance against purchases / services	**-**	5,459	**-**	104	56
	Advance to contractor	**-**	-	**-**	6,063	2,488
Key management personnel	Sale of properties, utilities and service charges	**7,214**	43	**377**	256	99
Board of directors	Sale of properties, utilities and service charges	**6**	-	**7,329**	-	-
Total				**9,900**	11,713	7,540
Amounts due to related parties						
Affiliates	Expenses incurred on behalf of the Group	**890**	294	**(2,708)**	(2,675)	(2,710)
	Services provided to the Group	**26,269**	29,863	**(305)**	(728)	(2,479)
	Advance against sale of properties and leased units	**-**	-	**(8,533)**	-	-
	Purchase of goods	**523**	80	**-**	-	-
Key management personnel	Remuneration	**34,600**	38,669	**(18,991)**	(26,505)	(24,224)
Board of directors	Remuneration and meeting fees	**3,650**	3,462	**(3,650)**	(8)	-
Total				**(34,187)**	(29,916)	(29,413)

28. RELATED PARTY DISCLOSURE (continued)

Compensation of key management personnel of the Group

	31 December 2017 SR' 000	*31 December 2016 SR' 000*
Short-term employee benefits	**24,816**	30,053
Non-monetary benefits	**823**	1,005
Post-employment benefits	**1,312**	1,729
Termination benefits	**1,767**	-
Other long-term benefits	**5,882**	5,882
	34,600	38,669

29. CONTINGENT LIABILITIES AND COMMITMENTS

In addition to disclosure set out in note 27, contingent liabilities and commitments, as at 31 December 2017, are described as below:

(a) During the year ended 31 December 2017, the Company has signed a short-term facility agreement with a commercial bank for SR 250 million, carrying commission at prevailing commercial rates, in order to finance the working capital requirements. The subject loan facility is secured by a promissory note of SR 250 million.

(b) The Group has outstanding commitments related to future expenditure for the development of KAEC in coming few years, amounting to SR 1,149 million (31 December 2016: SR 1,686 million).

(c) The Group, from time to time, is a defendant in lawsuits, which mainly represent commercial disputes. The management expects a favourable outcome of all the pending litigation against the Group. Accordingly, no provision has been made in these consolidated financial statements.

(d) Operating lease commitments:

Group as lessee
The Group has operating leases for office space and equipment. The leases are renewable at the expiry of lease period. The Group's obligation under the operating lease is as follows:

	31 December 2017 SR' 000	*31 December 2016 SR' 000*
Within one year	**837**	585
	837	585

Group as lessor
The Group has entered into leases on its investment property portfolio. The future minimum rentals receivable under non-cancellable operating leases contracted for as at the reporting date but not recognized as receivables, are as follows:

	31 December 2017 SR' 000	*31 December 2016 SR' 000*
Within one year	**53,924**	51,370
After one year but not more than five years	**204,442**	195,568
More than five years	**675,398**	686,565
	933,764	933,503

30. SEGMENTAL INFORMATION

Management monitors the operating results of its business segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

Business Segments
For management purposes, the Group is organised into three major segments namely, residential business, industrial development and hospitality and leisure (develop, own and/or manage hotels, serviced apartments and leisure activities). Other segments include corporate departments of the Group and businesses that individually do not meet the criteria for a reportable segment as per IFRS 8 *Operating Segments*.

Segments related Revenue and Profitability

For the year ended:	*Residential business SR'000*	*Industrial development SR'000*	*Hospitality and leisure SR'000*	*Others SR'000*	*Total SR'000*
31 December 2017					
Revenue	**692,261**	**598,702**	**62,260**	**84,753**	**1,437,976**
Results					
Operating profit / (loss) for the year	**351,765**	**453,037**	**(57,027)**	**(455,112)**	**292,663**
Unallocated other income / (expenses)					**96,199**
Profit before zakat					**388,862**
31 December 2016					
Revenue	1,351,525	716,866	104,404	94,976	2,267,771
Results					
Operating profit / (loss) for the year	496,152	581,409	3,245	(504,908)	575,898
Unallocated other income / (expenses)					166,152
Profit before zakat					742,050

31. FINANCIAL INSTRUMENTS RISK MANAGEMENT

Overview
The Group's activities may expose it to a variety of financial risks. The Group's overall risk management program focuses on robust liquidity management as well as monitoring of various relevant market variables, thereby consistently seeking to minimize potential adverse effects on the Group's financial performance.

The Group may expose to the following risks from its use of financial instruments:

a) Credit risk;
b) Commission rate risk;
c) Currency risk; and
d) Liquidity risk.

This note presents information about the Group's possible exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk and the Group's management of capital.

31. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. Group's senior management are responsible for developing and monitoring the Group's risk management policies and report regularly to the Board of Directors on their activities.

The Group's risk management policies (both formal and informal) are established to identify and analyse 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's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Group's principal financial liabilities comprise of accounts payable and accruals and term loans. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include employees' receivable – home ownership scheme, receivables, murabaha term deposits with banks and cash and cash equivalents.

The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below:

a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is exposed to credit risk principally from its accounts receivables and other receivables including murabaha term deposits with banks.

The Group seeks to manage its credit risk with respect to customers by monitoring outstanding receivables. The sale agreements with customers provide that the title to the property is transferred to the customers only upon the receipt of complete sale price. The five largest customers account for 29% (2016: 14%) of outstanding accounts receivable at 31 December 2017. The Group manages its exposure to credit risk with respect to murabaha term deposits with banks by diversification and investing with counterparties with sound credit rating.

With respect to credit risk arising from the other financial assets of the Group, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Excessive risk of concentration
Concentration arises when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration of risk is managed through focus on the maintenance of a diversified portfolio.

b) Commission rate risk

Commission rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market commission rates.

The Group's exposure to the risk of changes in market commission rates may relate primarily to the Group's long term loans and murabaha term deposits with banks with floating commission rates. The Group manages the commission rate risk by regularly monitoring the commission rate profiles of its commission bearing financial instruments.

At the reporting date, the Group does not have any murabaha term deposits with banks at floating commission rates. Accordingly, only long term loans are exposed to floating commission rates.

31. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

b) Commission rate risk (continued)

Commission rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in commission rates on long term loans. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings, as follows:

	Increase/decrease in basis points	*Effect on profit before zakat SR'000*
2017	**+100**	**14,310**
	-100	**(14,310)**
2016	+100	14,310
	-100	(14,310)

The assumed movement in basis points for the commission rate sensitivity analysis is based on the currently observable market environment, showing a significantly higher volatility than in prior years.

c) Currency risk

Currency risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in foreign exchange rates. The Group did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars. As US Dollar is pegged to Saudi Riyal, the Group is not exposed to significant currency risk.

d) Liquidity risk

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

The cash flows, funding requirements and liquidity of Group companies are monitored on a centralised basis, under the control of Group Treasury. The objective of this centralised system is to optimise the efficiency and effectiveness of the management of the Group's capital resources.

31. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

d) Liquidity risk (continued)

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

31 December 2017	***Less than 3 months SR'000***	***3 to 12 months SR'000***	***More than 12 months SR'000***	***Total SR'000***
Long term loans	**-**	**650,000**	**7,350,000**	**8,000,000**
Accounts payable and accruals	**-**	**884,082**	**-**	**884,082**
	-	**1,534,082**	**7,350,000**	**8,884,082**

31 December 2016	*Less than 3 months SR'000*	*3 to 12 months SR'000*	*More than 12 months SR'000*	*Total SR'000*
Long term loans	-	-	7,500,000	7,500,000
Accounts payable and accruals	-	1,046,490	-	1,046,490
	-	1,046,490	7,500,000	8,546,490

1 January 2016	*Less than 3 months SR'000*	*3 to 12 months SR'000*	*More than 12 months SR'000*	*Total SR'000*
Long term loans	-	-	7,100,000	7,100,000
Accounts payable and accruals	-	656,747	-	656,747
	-	656,747	7,100,000	7,756,747

32. CAPITAL MANAGEMENT

Capital includes equity attributable to the ordinary equity holders of the Parent Company. The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The primary objective of the Group's capital management strategy is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. At 31 December 2017, the Group's gearing ratio is 48% (2016: 47%).

In order to achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call borrowings. There have been no breaches of the financial covenants of any borrowings in the current year. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 31 December 2016.

33. FAIR VALUE OF ASSETS AND LIABILITIES

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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or liability, the Group uses observable market 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.

Level 2: inputs other than quoted prices included 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).

If the inputs used to measure the fair value of an asset or liability falls into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest input level that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

As at 31 December 2017, 31 December 2016 and 1 January 2016, the fair values of the Group's financial instruments are estimated to approximate their carrying values and are classified under level 2 of the fair value hierarchy. No significant inputs were applied in the valuation of trade receivables as at 31 December 2017, 31 December 2016 and 1 January 2016.

During the year ended 31 December 2017, there were no movements between the levels.

34. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

Changes in liabilities arising from financing activities, including long term loans and unearned financing component on long term receivables, are disclosed in the consolidated statement of cash flows.

35. MATERIAL PARTLY-OWNED SUBSIDIARIES

The following table summarizes the statement of financial position of these subsidiaries as at 31 December 2017. This information is based on the amounts before inter-company elimination.

	ECIHC SR'000	***IZDCL SR'000***	***REOM SR'000***	***REM SR'000***	***RED SR'000***
Total assets	**4,536,467**	**1,074,454**	**1,552,075**	**555,018**	**1,817,651**
Total liabilities	**3,891**	**40,665**	**129,480**	**38,554**	**282,733**
Total equity	**4,532,576**	**1,033,789**	**1,422,595**	**516,464**	**1,534,918**
Attributable to:					
Owner of the parent	**4,487,250**	**1,013,320**	**1,394,428**	**506,238**	**1,504,527**
Non-controlling interest	**45,326**	**20,469**	**28,167**	**10,226**	**30,391**

The following table summarizes the statement of financial position of these subsidiaries as at 31 December 2016. This information is based on the amounts before inter-company elimination.

	ECIHC SR'000	*IZDCL SR'000*	*REOM SR'000*	*REM SR'000*	*RED SR'000*
Total assets	4,659,016	803,340	1,376,003	580,125	1,131,681
Total liabilities	1,170	36,253	65,567	27,271	110,556
Total equity	4,657,846	767,087	1,310,436	552,854	1,021,125
Attributable to:					
Owner of the parent	4,611,268	751,899	1,284,489	541,907	1,000,907
Non-controlling interest	46,578	15,188	25,947	10,947	20,218

The following table summarizes the statement of financial position of these subsidiaries as at 1 January 2016. This information is based on the amounts before inter-company elimination.

	ECIHC SR'000	*IZDCL SR'000*	*REOM SR'000*	*REM SR'000*	*RED SR'000*
Total assets	3,753,659	809,528	1,379,610	594,031	1,093,418
Total liabilities	1,115	33,685	47,990	17,642	43,536
Total equity	3,752,544	775,843	1,331,620	576,389	1,049,882
Attributable to:					
Owner of the parent	3,715,019	760,481	1,305,254	564,976	1,029,094
Non-controlling interest	37,525	15,362	26,366	11,413	20,788

35. MATERIAL PARTLY-OWNED SUBSIDIARIES (CONTINUED)

The following table summarizes the statement of profit and loss of these subsidiaries for the year ended 31 December 2017. This information is based on the amounts before inter-company elimination.

	ECIHC	***IZDCL***	***REOM***	***REM***	***RED***
	SR'000	***SR'000***	***SR'000***	***SR'000***	***SR'000***
Revenue	**5,700**	**93,973**	**81,438**	**34,139**	**-**
Profit / (loss) for the year	**(121,820)**	**29,447**	**(30,960)**	**(58,242)**	**(70,461)**
Total comprehensive (loss) / income for the year	**(125,270)**	**28,702**	**(32,841)**	**(58,390)**	**(71,208)**
Attributable to:					
Owner of the parent	**(124,017)**	**28,134**	**(32,191)**	**(57,234)**	**(69,798)**
Non-controlling interest	**(1,253)**	**568**	**(650)**	**(1,156)**	**(1,410)**

The following table summarizes the statement of profit and loss of these subsidiaries as at 31 December 2016. This information is based on the amounts before inter-company elimination.

	ECIHC	*IZDCL*	*REOM*	*REM*	*RED*
	SR'000	*SR'000*	*SR'000*	*SR'000*	*SR'000*
Revenue	**-**	52,116	76,740	40,467	**-**
Loss for the year	(84,699)	(8,756)	(21,185)	(23,535)	(28,757)
Total comprehensive loss for the year	(84,699)	(8,756)	(21,185)	(23,535)	(28,757)
Attributable to:					
Owner of the parent	(83,852)	(8,583)	(20,766)	(23,069)	(28,188)
Non-controlling interest	(847)	(173)	(419)	(466)	(569)

36. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorized to issue by the Board of Directors on 26 March 2018, corresponding to 9 Rajab 1439H.