KAEC

مدينة الملك عبدالله الاقتصادية

Another World

Annual Report 2018

Contents

We are creating a new world city to benefit citizens, businesses, and the entire Kingdom of Saudi Arabia. As well as a unique environment for people's futures, King Abdullah Economic City (KAEC) is the region's fastest growing manufacturing and logistics hub, creating socio-economic value for the country as well as millions of new career opportunities.

The master developer of KAEC is Emaar, the Economic City.

Emaar, the Economic city (EEC) is a Tadawul-listed real estate development and management company. Its primary focus is the planning and development of KAEC. When it launched its successful initial public offering (IPO) in 2006, EEC made history: more than half of the Saudi population subscribed to shares.

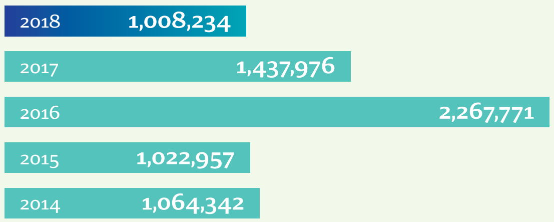
The sole regulator of KAEC is the Economic Cities Authority (ECA), which is headquartered at KAEC.

With a comprehensive scope and a wide spectrum of incentives for investors and residents alike, ECA offers privileged regulations, including: 100 percent foreign ownership for individuals and organizations, integrated seaport and bonded zone regulations, and ease of access to permits and licenses related to living, working, operating businesses, and owning and managing properties.

2018 results illustrate KAEC's resiliency

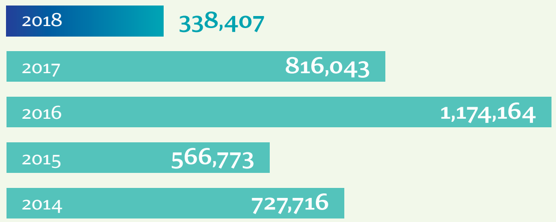
1.0 billion

Revenue (SR'000)



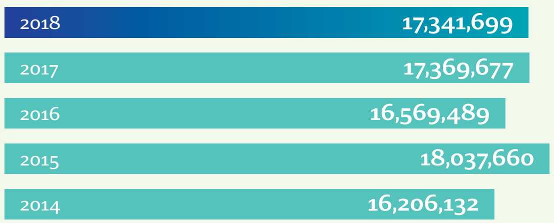
338.4 million

Gross Profit (SR'000)



17.3 billion

Total Assets (SR'000)



7.9 billion

Shareholders' Equity (SR'000)

Commercial Properties

97

National and international companies

Industrial Valley

115

National and international companies

King Abdullah Port

17.3 km²

63.4% developed

Residential Properties

15,958 units

Total number of residential products

Bay La Sun

96 thousand metres²

100% developed
High-end communities

Al-Murooj

3.7 million metres²

94.3% developed
High-end communities

Al Talah Gardens

3.2 million metres²

88.6% developed
Middle-income communities

Al-Waha

243 thousand metres²

100% developed
Middle-income communities

Al-Shurooq

150 thousand metres²

100% developed
Affordable communities

Advancing towards our vision

The fourth quarter of 2018 showed several indicators of a return to stronger activity in the business sector. We are confident of continuing with a positive approach in 2019 as our strategies and projects bear results.

King Abdullah Economic City (KAEC) has grown rapidly across all strategic sectors in recent years. The advancement of the city's projects and facilities has enhanced our position and attractiveness as a modern destination for investors, visitors, residents and employees.

The year 2018 was marked by many achievements and gains. KAEC added to its infrastructure, always employing the highest technical standards, and launched the second phase of development under the patronage and wise leadership of the Custodian of the Two Holy Mosques, King Salman Bin Abdulaziz Al-Saud, and His Royal Highness Prince Mohammad Bin Salman, the Crown Prince.

With the dedicated support of government authorities, the Kingdom's Vision 2030 is shaping Saudi Arabia into a global investment force and building a stable and prosperous economy with effective public-private partnership. In this enabling environment, KAEC's operating strategy will always be designed to advance the goals of Vision 2030.

This annual report reviews the year's most important achievements and gains, including the visit of His Royal Highness Prince Mohammad Bin Salman to KAEC to inaugurate King Abdullah Port and the opening of the Haramain railway station as part of a new high-speed electric train network connecting KAEC to Jeddah, Makkah and Medina. The station strengthens our transport system and reinforces our position as an attractive place for businesspeople to live.

During the year, the Royal Greens Golf and Country Club was inaugurated and the Saudi Golf Federation signed an agreement to host the Saudi International championship, which was held at the beginning of 2019 with the participation of 132 players including the world's three top-ranked golfers. The tournament was broadcast to more than 150 countries around the globe.

KAEC's efforts have been crowned by several international and local awards, notably the Makkah Award for Excellence, which is presented to authorities for outstanding achievements and pioneering initiatives, under the patronage of His Royal Highness Prince Khalid Al Faisal, Advisor to the Custodian of the Two Holy Mosques and Governor of Makkah Province.

These initiatives, achievements and awards asserted our position as a model of the objectives of Vision 2030 in social and economic development across the four strategic sectors of KAEC's investments: logistics, industry, quality of life, and tourism and recreation – as well as supporting and empowering entrepreneurs.

The fourth quarter of 2018 showed several indicators of a return to stronger activity in the business sector. We are confident of continuing with a positive approach in 2019 as our strategies and projects bear results.

Even in a year of many achievements, we faced challenges and these were handled with efficiency by the executive management and employees of KAEC.

I offer thanks and appreciation to the Board of Directors and to Mr. Fahd Al-Rasheed, the former Managing Director and Group CEO, for more than 11 years of efforts to develop KAEC's infrastructure and launch a number of key projects. I also welcome our new CEO, Ahmed Linjawy, who has the full confidence of the Board of Directors and shareholders in guiding KAEC's future direction.

I wish continued success for all employees and investors of KAEC. Together we will overcome all challenges.

H.E. Mohamed Alabbar
Chairman

Board of Directors

H.E. Mohamed Alabbar
Chairman

Mr. Abdullah Kamel
Vice Chairman

Mr. Fahd Al-Rasheed
Board Member

H.E. Khalid Al Molhem
Board Member

Mr. Abdulrahman Alrowaita
Board Member

Mr. Ahmed Jawa
Board Member

Mr. Abdullah Taibah
Board Member

H.E. Saud Al Saleh
Board Member

Mr. Jamal Bin Theniyeh
Board Member

Picking up speed

King Abdullah Economic City witnessed many developments and achievements in 2018 as we strived to contribute to realizing the Kingdom's Vision 2030 at an accelerated pace. We are determined that 2019 will be even more dynamic as we build on the fourth quarter's positive economic indicators.

This annual report explains in detail the progress achieved in 2018 at various levels, including the start of new leisure and tourism projects such as Bay X, our city's first enclosed exhibition center, at Bay La Sun. We are also proud of our waterpark, marina, public beach and many other entertainment projects that are being developed.

KAEC hosted a number of cultural, economic, social and artistic events and activities that contributed to the number of city visitors rising to about 400,000 in 2018. Industrial Valley continued to thrive. It attracted a number of investors and new tenants and now has 115 in total.

Despite economic challenges in the real estate sector, KAEC developed and delivered more residential units in 2018. Their design, facilities and services match the quality-of-life aspirations and objectives of our residents.

As part of the development and growth process, KAEC focuses on developing our human resources in line with Vision 2030. We have done this through a number of development and vocational programs, as well as the development of educational facilities. In this context, SR 300 million has been invested so far in health and education.

Our efforts include providing training opportunities for 4,000 young men and women a year through the Tomouh program, which is supported by His Royal Highness Prince Khalid Al Faisal, Advisor to the Custodian of the Two Holy Mosques and Governor of Makkah Province. KAEC will also host the National Academy of Aviation, which in time will train as many as 1,000 aircraft technicians and 350 pilots a year.

By 2023 we expect to spend SR 2.2 billion on human resources development to contribute to the creation of about 6,000 additional jobs, and increase the capacity of our educational facilities to host more than 33,000 students.

KAEC has also sought to strengthen partnerships with government agencies to embrace a spirit of cooperation and accelerate our progress towards realizing Vision 2030. A number of MOUs were signed in 2018 including with the General Authority for Culture, the General Sport Authority and other sports associations, and the Small and Medium Enterprises Organization. In addition, an agreement was signed with the National Housing Company to provide 8,000 new residential units in our Al-Shurooq community.

KAEC's projects and services received many awards and certificates of appreciation in 2018. These included Industrial Valley receiving the International Finance Award as the fastest-growing industrial zone in the Gulf, the new Hijaz Smart Gate Project obtaining a 2018 global Intersec Award for security and safety, Al-Murooj receiving the International Property Award for best mixed-use residential neighborhood in Saudi Arabia, and Bay La Sun Hotel & Marina winning the World Travel Award for best luxury family hotel in the Kingdom.

While we are proud of what we achieved in 2018, we still have much to do to make our city the preferred destination for living, working and entertainment in the region. To this end, we will sustain our efforts to develop the ideal range of services and facilities and to deepen our relationship with our clients.

In conclusion, I thank the Chairman and Board of Directors for their invaluable support and guidance. I also thank my colleagues and staff for their great efforts and achievements in 2018, and I wish success to all.

Ahmed Linjawy
Group Chief Executive Officer

By 2023 we expect to spend SR 2.2 billion on human resources development to contribute to the creation of about 6,000 additional jobs, and increase the capacity of our educational facilities to host more than 33,000 students.

Executive Management

Ahmed Linjawy
Group Chief Executive Officer

Faisal Faruqi
Group Chief Financial Officer

Charles Biele
CEO, Residential Development

Shadi Ghamri
Chief City Development and Services Officer

Mazen Tammar
Chief Business Sector Officer

Karim Mourad
Executive Director, Chief Compliance Officer & Head of Board and Shareholders Affairs and Secretary of the Board

Hani Gharbawi
General Counsel and
Chief Corporate Affairs Officer

Wafa Al-Hameedi
Chief Information Officer and
CEO, Emaar Knowledge Company

Ayman Mansi
CEO, Industrial Valley and
Head of New Business Ventures

Ramzi Solh
CEO, Commercial Development

Mohamad Ballout
Senior Director, Head of Leisure
and Retail Operations

Hesham ElAbd
Chief Procurement and Operation Services Officer

Modern homes in a
beautiful setting by the sea

Unique city living

5,300+

KAEC's residential population has reached more than 5,300, an increase of 22 percent over 2017.

59%

Occupancy of delivered residential units reached 59 percent during 2018.

KAEC aspires to be the preferred lifestyle destination in Saudi Arabia – a place to live and work, to grow and study, to meet friends for evening concerts or an afternoon coffee by the sea. With each passing year, we are moving closer to that goal.

Our vision to create a unique city living experience continued to be realized in 2018 as we worked to deliver a mix of housing options across the price range, and added to our already diversified amenities for residents. We also signed a strategic agreement with the Ministry of Housing to simplify the process of obtaining a mortgage at KAEC.

Our growing residential communities cater to a range of income levels and feature vast green spaces, walking, running and cycling trails, the best educational, health, social and recreational facilities, and a comprehensive range of restaurants, cafés and shops – all in a safe, healthy, modern environment that is constantly reinventing itself.

By enabling Saudi families and young professionals to own homes that suit their needs and financial capabilities, we help fulfill the Vision 2030 theme of creating a vibrant society. Our work in this area supports two of Vision 2030's strategic measures: the housing program and the lifestyle improvement program.

Creating the perfect balance

A mix of housing options is essential as we aim to increase our population by 25 percent each year. All our communities – regardless of price range – have reliable and well-maintained infrastructure and offer the highest standards of safety and security. They encourage and instill a tolerant and inclusive culture that respects individuality.

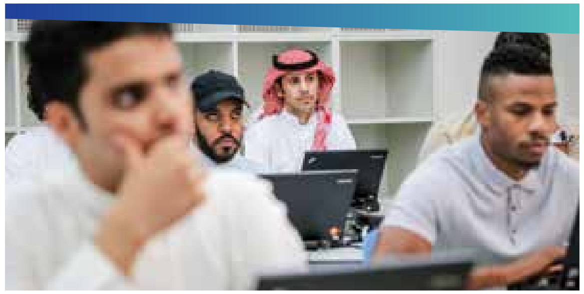
A major step forward for our affordable housing strategy came in June when the National Housing Company and KAEC signed a memorandum of understanding to build 8,000 residential units in our Al-Shurooq community. This public-private collaboration was initiated in conjunction with the Ministry of Housing's Sakani program.

We also teamed up with Amlak and Bidaya Home Finance to create a mortgage management agency, making it simpler for buyers to obtain mortgages. Approval is streamlined and payroll deductions are smoother. At the same time, Majed bin Abdullah Al Hogail, the Minister of Housing, presented our first group of Sakani beneficiaries with the keys to 200 residential units.

Al-Shurooq is our main affordable housing community. Its initial phase has delivered 1,440 residential units and its second phase encompassing 1,800 homes is expected to be handed over in 2019.

The ratio of developed residential plots reached 78 percent in 2018, up from 55 percent in 2017.

78%



The implementation of fiber cable throughout the city rose to 228 km during the year.

228 km

Built to the highest standards

In the middle-income tier, we offer the communities of Al-Waha and Al Talah Gardens on the coastal road and, under development, Miram Al-Hejaz near the Haramain High Speed Railway station.

In 2018 we delivered hundreds of villas in Al Talah Gardens and opened community parks and recreation facilities for the area. This development features green spaces, a walking path and playgrounds, a gymnasium, and separate outdoor swimming pools for men, women and children.

Covering some 525,300 m², the first phase of Al Talah Gardens comprises 423 single-family plots and 179 family villas. The villas come in two architectural styles, Arabic and Spanish, each available in four sizes ranging from 480 m² to 3,202 m².

The Miram Al-Hejaz project is at an earlier stage. In March, we announced the start of off-plan sales of residential sites in this master-planned, gated community. We released 130 new plots for single-family homes. Besides being within walking distance of the train station, these homes will feature energy-efficient construction, elegant landscaping, and easy access to Juman Park. The homes are ideal for professionals, families, visitors and investors.

Luxury launch of beach community

In November we announced the launch of villa plots at our prestigious Al-Murooj Beach Community, a secure gated neighborhood with state-of-the-art infrastructure, best-in-class community facilities and extensive lifestyle amenities, all designed to the highest standards of luxury and prestige.

The Beach Community spans 900,000 m², with plots available from 600 m² to 6,000 m² and offering buyers a choice of 20 villa plans. The villas will have stunning views of the Red Sea and are near our championship Royal Greens golf course.

The Beach Community will be one of three focal areas of Al-Murooj, along with the Golfing Community and Al-Manazel. Al-Murooj has received international recognition, winning the 2018 International Property Award for Best Mixed Use Development in Saudi Arabia. This marks the third successive year that KAEC has won an International Property Award, an unprecedented achievement.

Accolades for our smart city

To attract and serve residents we must be technologically astute. This vital aspect of the quality of life in a modern city is yet another area where KAEC is ahead of the curve – our city is a smart city.

With more than 2,800 units connected, KAEC is among the few cities in the world to have high-speed broadband connectivity to every residential district. The introduction of 4.5G technology has laid the foundation for welcoming 5G, offering superior bandwidth capacity and speeds.

The Discover KAEC app provides a one-stop shop for residents and investors who want information on the latest KAEC solutions and offerings across all sectors. KAEC has also introduced an exclusive billing platform, providing residents with full visibility and transparency on utility consumption and charges.

Our efforts have been recognized. KAEC's Hijaz Smart Gate Project, which ensures smooth entry for residents and visitors, won a global award for the best use of technology and innovative solutions to enhance public safety, security and the customer experience at the 2018 Intersec Awards. We were also in the top three of about 80 entrants for the IDC Green Field City Awards, recognizing the region's most innovative ICT-enabled Smart City projects and initiatives.

World-class leisure facilities draw visitors to KAEC

Entertainment and sports take center stage

Entertainment and sports take center stage

For Saudi Arabia, 2018 was a momentous year in entertainment and sport, highlighted by the return of cinemas to the Kingdom after 35 years, a variety of concerts performed by favorite local, regional and global stars, the European PGA Tour making its first stop in Saudi Arabia, and significant progress with plans to build an international-class racetrack.

This transformation flows from Vision 2030, and again KAEC is at the forefront of the curve. Our city is on track to become the premier all-purpose leisure and entertainment destination for Saudi and foreign visitors, as well as KAEC residents.

The vibrant mix of Arabic and western entertainment brings ever more people to KAEC. Amid our expanded offerings, visitor numbers have risen at an impressive rate: from 160,000 in 2016 to 300,000 in 2017 to 400,000 in 2018. We are targeting one million visitors in 2019.

Largest venue opens for events

Bay X, our city's first enclosed exhibition center, opened in February at Bay La Sun. It meets KAEC's growing need for an events venue that can cater to the meetings, incentives, conventions and exhibitions (MICE) industry and also host a range of entertainment events.

KAEC's largest venue, Bay X is a 7,000 m² multi-use center incorporating 2,800 m² of hall space, with floor-to-ceiling windows that provide excellent natural light, 13 meeting rooms, conference rooms that are adaptable and resizable, and an indoor theatre.

In its first year, Bay X has hosted financial and business gatherings, as well as entertainment and leisure events such as the GSA FIFA 18 Cup video-game competition, the Illuminaire modern circus, and the Irish tap-dancing show Spirit of the Dance.

Egyptian superstar's sold-out concert

The multi-talented Egyptian pop star Tamer Hosny performed at KAEC in March, his first concert in the Kingdom. All 6,000 tickets were sold out in less than two hours, attesting to the popular desire for an expansion of entertainment options. The crowd, excited yet orderly, waved and took selfies as Hosny performed on stage, backed by an impressive light show.

Hosny returned for a second performance at KAEC in early 2019, giving fans another chance to enjoy his show. KAEC's entertainment momentum carried further into early 2019 with performances by the American singer Mariah Carey and the Dutch DJ Tiesto, both timed to coincide with the Saudi International golf tournament at KAEC.

400,000
visitors

KAEC hosted a number of cultural, economic, social and artistic events and activities that contributed to the number of city visitors rising to about 400,000 in 2018.

KAEC's largest venue, Bay X is a 7,000 m² multi-use center incorporating an indoor theatre.

7,000 m²

More than 4,000 people attended September's international drone racing event at KAEC.

4,000 people

A home for art, jazz and more

It was not solely on the concert stage that KAEC's entertainment options grew more diverse in 2018. Other highlights included an art show, a jazz festival and drone racing.

In February, Bay La Sun hosted Drum Roll Please, a solo art show featuring the work of Ahmed Mater that chronicled the Kingdom's profound changes. It showed glimpses of everyday life carved out by Makkah's residents from their barbershops to their kitchens.

In March, Juman Park was the site of the first annual KAEC International Jazz Festival. Saudi Arabia's largest jazz festival to date, it featured acts from around the world and close to home: from America the saxophonist and flautist Kenny Garrett to Min Alriyadh, a Saudi band that combines traditional and contemporary styles.

In September, more than 4,000 people turned up at KAEC for the final stop on the 2018 international tour of the Drone Racing League. Pilots from around the world, including Saudi entrants, raced custom-made drones through an obstacle course at speeds of more than 120 km/h.

A complete tourist destination

Our leisure, tourism and entertainment options grow greater each year. Apart from the opening of Bay X, our operating projects in this area include the Bay La Sun Hotel and Marina, Juman Park (with a nine-hole putt-putt course and an 18-hole miniature golf course), the Bay La Sun Marina and Yacht Club, the Bay La Sun Beach and Marina Walkways, and the Aqua Fun waterpark.

In 2019 we plan to add YAM Beach, the first public beach on the shoreline of Bay La Sun; Lagoona Escape, which will offer the first glamping (glamorous camping) in the Kingdom; and K-Max, a thrilling 4D ride for youngsters and adults.

The world's golfing elite compete at Royal Greens

KAEC's agreement with the European PGA Tour was a defining moment in the development of professional sport in the Kingdom, and a clear signal that the country can compete at the very highest level. By showcasing the best golfers in the world, we hope to encourage more Saudi families and young people to participate in regular exercise and take up the sport. It was also an honor that our home course, Royal Greens Golf and Country Club, was chosen to host the inaugural Saudi International event.

Entertainment and sports take center stage

The Saudi International golf championship was broadcast to more than 150 countries and received coverage across a vast number of media outlets including the BBC, ESPN, and Sky Sports.

471

Rooms available in hotels, serviced apartments and resorts by the end of 2018, 141 percent higher than 2017.

With premium events such as this, KAEC is broadening its offering for visitors and residents alike, while helping to create a positive global image for the Kingdom. The growth of our sports segment supports the Vision 2030 themes of a vibrant society and an ambitious nation.

In March 2018, the European PGA Tour announced a three-year partnership with Saudi Arabia to host an annual tournament at KAEC. The agreement followed the high-profile visit to London of His Royal Highness Prince Mohammad Bin Salman, the Crown Prince.

The partnership took effect in time for the European Tour's 2018-19 schedule and many of the world's best golfers came to Royal Greens Golf and Country Club.

The inaugural Saudi International did not disappoint the thousands of fans who attended. For the first time since 2012, the world's top three players competed in a European Tour event other than a major or a World Golf Championship – England's Justin Rose and Americans Brooks Koepka and Dustin Johnson. Other big names who teed up included two formerly ranked number ones: South Africa's Ernie Els and England's Lee Westwood. And for the first time, three Saudi golfers took part: Abdulrahman Al Mansour, Saud Al Sharif and Othman Almulla.

The final day began with Dustin Johnson and China's Haotong Li tied atop the leaderboard, but a three under par 67 by Johnson took him to 19-under for the tournament and a two-stroke winning margin.

A sporting event of this caliber is not only a draw for tourists and a treat for residents, it creates significant international exposure for KAEC. The Saudi International was broadcast to more than 150 countries and received coverage across a vast number of media outlets including the BBC, ESPN, and Sky Sports.

The tournament showed a new facet, not only of KAEC but of Saudi Arabia. Many viewers unfamiliar with the Kingdom will have been surprised to see our home course's lush greens alongside the stunning blues of our Red Sea coastline. In terms of global exposure, it was a highlight in the history of KAEC, helping to put the city on the global map in a fresh new way.

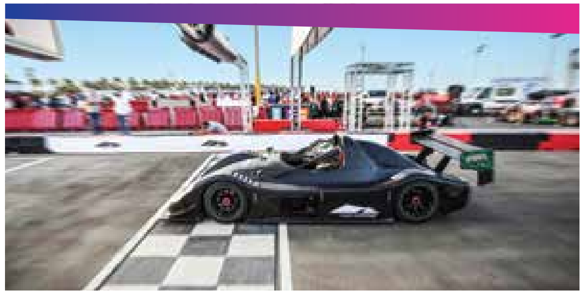
All in all, 2018 was a landmark year for Royal Greens. The course opened for play in the first half of the year. The 800,000 m^2 site is becoming a social as well as a sporting hub for the people of KAEC. It includes not only the 7,000-metre golf course and its 9,000 m^2 clubhouse, but a spa, health club, restaurants, salon and kids' club. Reflecting KAEC's desire to reach as many residents as possible, the club has tiered membership plans including a family plan and plans tailored for individuals and businesspeople.

800,000 m²

2018 was a landmark year for the 800,000 m² Royal Greens Golf and Country Club.

Dustin Johnson's score of 19-under par won the inaugural Saudi International golf championship.

19-under



At a cost of SR 52 million, KAEC's Lagoona Motorsport Park Racetrack is currently under construction.

SR 52 mn

Becoming a regional motorsports hub

In 2018 we continued work on a racetrack that will complement our golf course in establishing KAEC as an all-around sports and lifestyle destination. The Lagoona Motorsport Park Racetrack will be a central and unifying element of Lagoona Land, designated as KAEC's 'play district'. The vision for Lagoona Land also includes a children's theme park featuring a water park, plus an eco-park and a safari district.

In 2018, work on the international-caliber racetrack gained momentum, after awarding a SR 52 million contract to Khobar-based Salem Saleh Al-Hareth. Testing of the track is slated for the first half of 2019. In time, the track could function as a commercial hub for businesses such as auto dealerships and tuning shops.

Saudi Arabia, like all the Arabian Gulf countries, has a huge motorsports following and we believe KAEC can become a regional hub for the sport. We are working on this project in cooperation with the Saudi Arabian Motor Federation.

A sign of motorsport's shifting axis came in December when the Formula E electric-racecar circuit opened its fifth season with a race in Riyadh, the first Formula E event in the Kingdom. Over time, KAEC's racetrack stands to benefit from this shifting axis.

For the racecar drivers of tomorrow, KAEC has Juman Karting in our Bay La Sun district. It has 700 meters of 'arrive and drive' excitement that attracts visitors from across the Western Region.

Greater choice for overnight stays

Many visitors to KAEC need a comfortable place to stay. In 2018 we added a new option to our hotel mix with the opening of Views Hotel & Residences on our Red Sea waterfront in Bay La Sun. The hotel offers 174 elegant serviced units, from studios to penthouse suites, for guests desiring either short-term or long-term accommodation.

In February, we also announced an agreement under which Dubai-based Rove Hotels will operate a 240-room lifestyle hotel, likewise on our expanding Bay La Sun waterfront. Construction began in 2018 and the opening is scheduled for late 2019. This will be Rove's first hotel in Saudi Arabia.

We also look forward to opening the Sunrise residences, with two-bedroom furnished and serviced apartments, in Al-Shurooq in 2019.

The bigger picture

By promoting entertainment and leisure, we help people to lead fulfilling lives, which serves the Vision 2030 theme of a vibrant society.

At a strategic level, we plan to meet our goals in the broader domain of leisure, tourism and entertainment by investing SR 1.4 billion in three pillars of development. To realize the three-pillar strategy we are working in unison with several government agencies. These include the Ministry of Culture, the General Authority for Culture, the General Entertainment Authority and the General Sport Authority.

The first pillar of the strategy is the touristic and recreational aspect of KAEC, with up to 30 projects. The second pillar is organizing and hosting leisure, arts and economic events and activities. The third pillar is hosting prime international sports events.

KAEC seeks to nurture regional human capital

Our caring communities

Our caring communities

86%

Year-on-year growth in the number of students studying at Mohammad Bin Salman College for Business and Entrepreneurship (MBSC).

Schools and health clinics are vital in attracting families and professionals to our city, and to retaining them once they are here. Solidifying the cornerstones of social infrastructure – including health, wellness, education and training facilities – is an important part of our strategic focus.

With a population growth target of 25 percent a year, we relentlessly strive to improve the quality of life for KAEC residents, as well as people living in surrounding towns and villages.

For 2019 and beyond, our healthcare plans include greater service frequency for all medical specialties, executive clinics, home healthcare and a hospital. On the education side, our plans include a premium boarding school, a private school offering affordable education, a public school in Al-Shurooq, and expanded extracurricular programs at The World Academy, our K-12 school.

Our commitment to human capital development will create jobs and drive population growth. We forecast that by spending SR 2.2 billion across all health and education efforts, we can provide training capacity for more than 33,000 students and create 5,900 jobs by 2023. Our work in health and education furthers the social, economic and intellectual goals of Vision 2030.

MBSC welcomes second cohort

Prince Mohammad Bin Salman College of Business and Entrepreneurship (MBSC) welcomed its second cohort of students in 2018. In all, 6,500 people from Saudi Arabia and abroad applied for our MBA programs, 185 percent higher than the year before. Of these, 118 outstanding applicants were admitted.

MBSC's full-time MBA program lasts one year and the part-time two years. The college also offers executive education courses tailored to local needs, such as management of family businesses.

Already we have success stories. One of our second-year students has started a business selling home-made and organic Saudi food at KAEC. Another is running a new coffee business. A third is running an onsite travel agency.

Our aspiration for the next 10 years is for MBSC to become a full-fledged university. We see opportunities for expansion into disciplines such as accountancy, fashion, and design, where there is great domestic demand for trained talent.

Training job-seekers to succeed

KAEC's Tomouh program began life as a CSR initiative in 2012. Relaunched as a stand-alone vocational program in 2016, its ongoing development and expansion has helped to create a better future for young people across Makkah Province.

When Tomouh (Arabic for 'ambition') was launched, we began by creating a database of all teenagers in the surrounding towns who had either dropped-out of high school or not progressed to find work or pursue further studies. We provided courses in English, computer programming and information technology, but quickly realized that greater follow-up was needed to match graduates with employers.

This focus has paid dividends, with more and more companies taking part in our regular job fairs. In 2018 we graduated the fourth Tomouh cohort and the employment rate for graduates reached 50 percent, our highest success level yet.

Tomouh is now in its second phase and aims to train, qualify and find jobs for 10,000 young people from Makkah Province by 2020. We have trained 3,800 to date and this number will rise to 7,000 during 2019 amid heavy demand from applicants.

We are formalizing these efforts by creating the Tomouh Academy, scheduled to open in 2019 with 8,000 m^2 of built-up space. The academy will match KAEC's investors and tenants to job-seekers who have completed the program. Graduates will also create a seedbed of entrepreneurs and SMEs to help our city and the broader region prosper.

The employment rate for Tomouh graduates has reached 50 percent, our highest success level yet.

50%

By 2023 we expect to spend SR 2.2 billion on human capital development, creating 5,900 jobs.

SR 2.2 bn

Aviation careers for local talent

From 2019, a new National Academy of Aviation will be based at KAEC, training up to 1,000 technicians and 350 pilots a year. The academy's headquarters will be at KAEC, with a second branch in Riyadh at Al-Thumama Airport.

The aviation academy is a strategic partnership between the Economic Cities Authority, the Technical and Vocational Training Corporation, Saudia, the Saudi Aviation Club, Saudi Aramco, the Ministry of Education, and the Air Technology Company.

Culinary Arts Academy

In July, KAEC agreed with MiSK Foundation to launch a Culinary Arts Academy, the first such school in the Kingdom. MiSK Foundation, established by His Royal Highness Prince Mohammad Bin Salman, is a non-profit foundation that cultivates and encourages learning and leadership among Saudi youth.

Under the agreement, MiSK will recruit 500 high-school graduates into the program and provide scholarships for qualifying students, who will receive web-based and hands-on training in Arabic and English.

The students will learn about commercial food production and international best practice in sourcing, preparing and presenting food. They will also gain access to leadership and management training.

Becoming a healthcare destination

In 2018 our healthcare focus was on developing plans to meet the future needs of KAEC residents, and on laying the groundwork to become a destination for high-end medical tourism.

Currently, people living and working in KAEC have access to 24-hour healthcare with a full range of medical amenities and pharmaceutical requirements, supported by medical taxis and ambulances. Jeddah-based Dr Soliman Fakeeh Hospital operates our Family Medical Center in Al-Murooj and a second clinic in Industrial Valley. Our medium-term strategy is to create a health ecosystem that provides superior, reliable, customized medical services, including primary and secondary ambulatory clinics to deliver comprehensive services including trauma and emergency management.

In the longer term, we aim to expand from essential services to cover more specialized areas, particularly in the top four or five disciplines facing a service deficit in the Kingdom.

Emphasis on healthy living

Community wellness initiatives are a key part of KAEC's activities and we have stepped up efforts in this area. In 2018 we organized a number of programs, including promoting Breast Cancer Awareness Week in October. We also hosted a fun run along the waterfront promenade, which could eventually develop into a full-fledged marathon.

Our expansion of extracurricular programs at schools is designed to promote wellness from an early age. For example at the World Academy, the Juventus Soccer Academy is offering football training for boys and girls.

In 2020 we plan to open a dedicated Wellness Center to promote healthy living, reduce obesity and increase life expectancy. In terms of special needs, we are developing an Autism Center with programs focused on integrating young people with autism into our schools.


بسم الله الرحمن الرحيم
بعون من الله وتوفيقه ،
في عهد خادم الحرمين الشريفين
الملك سلمان بن عبد العزيز آل سعود
ورعاية وتشريف صاحب السمو الملكي ولي العهد
نائب رئيس مجلس الوزراء رئيس مجلس إدارة هيئة المدن
الأمير محمد بن سلمان بن عبد العزيز آل سعود
تم التدشين الرسمي لميناء الملك عبدالله
ميناء الملك عبدالله
King Abdullah Port
بمدينة الملك عبدالله
اليوم الإثنين السادس من جمادى
الموافق للحادي عشر من فبراير
MSC SONIA
PANAMA

Thriving port and new trains keep KAEC on the fast track

By land or by sea

By land or by sea

The 300 km/h Haramain High Speed Railway opened for passengers in October.

In 2018, King Abdullah Port's capacity grew by 36 percent to 2.3 million containers.

300 km/h

36 %

20,000 jobs

More than around 13 percent of world trade now passes through King Abdullah Port. In time, this is expected to create jobs for 20,000 Saudis.

Trade and logistics are at the heart of KAEC's vision, largely due to our strategic location at the crossroads of continents. Our port, our industrial zone and now our high-speed rail connection to Jeddah, Makkah and Medina ensure that this combination of logistics and location will continue to be an area of strength for KAEC, and increasingly will help drive population growth.

We took several significant steps forward on this path in 2018. We welcomed the new high-speed trains, our port had its busiest year, Industrial Valley continued to grow and we moved closer to the opening of a bonded zone to serve the re-export business.

KAEC supports the Vision 2030 theme of a thriving economy in several aspects, such as leveraging our unique geographic location, becoming more competitive on a global scale, and increasing the importance of the non-oil economy.

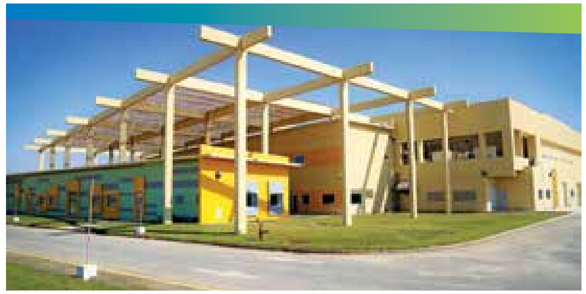
New era of train travel

On September 25, the Custodian of the Two Holy Mosques, King Salman Bin Abdulaziz Al-Saud, inaugurated the Haramain High Speed Railway that connects KAEC to Jeddah, Makkah and Medina. The service opened for passengers in October. It met and exceeded expectations for convenience and comfort, and strong demand quickly justified an increase in the original frequency schedule.

The trip from KAEC to Medina covers 266 km in 92 minutes. The trip to Jeddah is 44 minutes and to Makkah (via Jeddah) is 90 minutes. The train is affordable, with ticket prices starting from SR 50 in economy class and SR 65 in business class. Each Spanish-built Talgo 350 train can carry 427 passengers at speeds of up to 300 km/h. Eventually the number of passengers is expected to reach 60 million each year.

The train station in our Hejaz district has enormous potential, not only from the enhanced mobility it provides but because of its retail and development possibilities. Our plan is for the KAEC station to include a one-of-a-kind international oasis, a museum, shopping and entertainment centers, shops and commercial buildings. The station is directly linked to our coastal communities, beach and other commercial and residential areas.

The train's connection to the new Jeddah airport – already operating domestic flights and due to open fully in mid-2019 – can only increase the allure of KAEC as a place to live for business people who travel by air regularly. And the connection with Makkah and Medina creates an opportunity for us to establish KAEC as an ideal hub for Umrah visitors – also relieving congestion in the Holy Cities.



Industrial Valley's developed area has expanded to 28.5 km², a 24 percent increase over 2017.

28.5 km²

Record year for King Abdullah Port

King Abdullah Port has come a long way in a short time since it received its first commercial ship in 2013. It reported solid numbers in 2018, even as global trade entered a period of uncertainty characterized by economic tensions between major countries.

The port's volume of shipments achieved record year-on-year growth in 2018. With 18-metre-deep berths, the port is equipped to receive the new supersize container ships.

These efforts are essential as KAEC aims to increase its overall export/import traffic by 5.0 percent each year. And the port has plenty of room to grow – with capacity growing to 5.1 million TEU by the end of 2019, our long-term goal is 20 million TEU.

One factor that could help lift traffic is the national reform in 2018 that allowed women to drive. This is expected to bring widespread economic benefits, particularly for the auto trade.

Already more than 13 percent of world trade travels through King Abdullah Port. In time, this is expected to create jobs for 20,000 Saudis.

While the port is the first in the Kingdom to be owned, managed and operated by the private sector, it exemplifies public-private cooperation by hosting several public agencies. The Saudi Coast Guard, Saudi Customs, and the Saudi Food and Drug Administration are established inside the port.

2019 should be a year of continued strong growth. On February 11, 2019, the port marked a milestone with its official inauguration by His Royal Highness Prince Mohammad Bin Salman, the Crown Prince.

Industrial Valley adds to its roster

Industrial Valley has attracted 116 national, regional and international companies in industrial sectors that are promising and competitive. To name but a few of our tenants: the pharmaceutical giants Pfizer and Sanofi Aventis; Tamer Group, a leading Saudi healthcare company; Total, one of the world's largest lubricants companies; the chocolates company Mars; and many more including Saudia, Al-Salem Johnson Controls, Panda, Abdul Latif Jameel Group and IKEA.

In May we added another pharmaceutical company when Al-Mas International Pharmaceutical Industry announced it would establish one of the world's largest vaccine production plants in Industrial Valley. The company will lease 40,000 m² there for the first phase of its plant. It will be the first in the Middle East to produce BCG vaccines (used primarily to prevent tuberculosis).

Overall in 2018, our amount of space leased to pharmaceutical companies rose 18 percent. One question that people sometimes ask is, Why has KAEC had such success in attracting pharmaceutical companies?

The answer, beyond our virtues of logistics and location, could lie in our adherence to high standards. KAEC has strict regulations to maintain a clean environment at Industrial Valley. We have made a commitment to our pharmaceutical clients to keep the area around them free of industries that might create contamination risk, even where the risk is slight. This is just one advantage we have in developing on virgin soil.

For 2019, we look forward to a major development at Industrial Valley: the launch of our bonded zone, a new area dedicated to re-exports. We broke ground on this strategic project in 2018. Meanwhile, the drafting of regulations and a preliminary customs framework for the zone has reached an advanced stage.


KAEC

Contents

Board of Directors' Report

Introduction

Shareholders of Emaar, The Economic City – may the peace and blessing of Allah be upon you.

The Board of Directors of Emaar, The Economic City is pleased to present the Board's annual report for the financial year ending December 31, 2018, for discussion and then approval by the Annual General Meeting. This report reviews the performance and achievements of the Company during the past year, in addition to the financial statements and auditor's report for the period.

The report also contains a brief summary of the Company's governance mechanisms and disclosures related to the Board of Directors, its committees, senior executives, contracts and transactions with related parties.

Based on the Board's dedication to transparency and continuous disclosure, in accordance with the regulations issued by the concerned authorities and local and international practices in this regard, the report complies with the disclosure requirements stipulated in the Companies Law. These which are contained in the regulatory controls and procedures issued in implementation of the Companies Law concerning listed stock companies, as well as fulfillment of Articles 90 and 93 of the Corporate Governance Regulations issued by the Capital Market Authority (CMA) on February 13, 2017, and Article 65 of the Securities Offering Rules and the continuous commitments issued by the Board of the CMA dated December 27, 2017.

The annual report also demonstrates how Emaar, The Economic City's plans and strategies have effectively contributed to the achievement of the objectives of the Kingdom's Vision 2030. These strategies are to make KAEC a pioneer in the entertainment industry and an ideal environment for living and business. The strategy also seeks to take advantage of KAEC's geographic location, which makes it a major logistics center on the Red Sea.

Overview of the Company and its Activities

Emaar, The Economic City is a Saudi public Joint Stock Company, established by Ministerial Decision No 2533 issued on September 26, 2006 and listed on the Saudi Stock Exchange on October 7, 2006.

The Company's registered capital is SR 8.5 billion, distributed over 850 million shares, each with a nominal value of SR 10. The Company offered 30% of its total shares for public subscription and registered a record number of subscribers, exceeding 10 million.

The Company is active in the development of land and property in specialized economic zones or other areas, including the development of infrastructure; promoting, marketing and selling of land for development by other parties; renting and development of buildings and housing units; construction of property on lands for others and the development of economic zones, maritime ports, and any other activities necessary to achieve its objectives.

The Company is involved in the development of King Abdullah Economic City (KAEC), which is located 90 km north of Jeddah on the Red Sea coast. The Economic Cities Authority, established by Royal Decree No 19 issued on February 23, 2010, is responsible for economic cities to achieve its objectives in relation to developing national capital, attracting foreign investments, and achieving the objectives of the Kingdom's economic plans.

King Abdullah Economic City (KAEC) is one of the world's largest private sector economic projects. In 2010, shareholders approved the relocation of the Company's headquarters from Jeddah to KAEC.

Achievements in 2018

During the first 10 years of its establishment, the Company was able to build a strong economic base represented in infrastructure, the port, and the industrial valley, attracting companies and residents and providing suitable services to them. That also included establishing the financial model to develop KAEC, strengthen the Company's financial solvency, and develop its cash inflow.

It was also able to prove its role as one of the development and economic drivers in the country in accordance with the Kingdom's Vision 2030 in stimulating the government's drive towards the privatization of developmental projects and partnerships with the private sector in many vital sectors.

During 2018, development continued at all levels of infrastructure, recreational services and population growth. KAEC's population had reached 5,318 by the year-end, an annual increase of 22%. The occupancy rate in the delivered residential units reached 59% and the ratio of land developed from the first phase had reached 78% by year-end, compared to 55.5% at the end of 2017.

On the infrastructure side, 227.7 km of fiber optic cables were completed, compared to 208 km at the end of 2017, along with 94.1 km of the sewerage network, 127 km of the water network, and 425.8 km of the electricity network.

In terms of recreational facilities, the number of rooms in hotels, suites and resorts increased to 471 by the end of 2018, compared to 195 at the end of 2017. The number of students enrolled in the Prince Mohammad Bin Salman College of Business and Entrepreneurship (MBSC) increased from 89 to 166.

In Industrial Valley, the total area of developed land reached 28.5 km^2, compared to 23 km^2 at the end of 2017. King Abdullah Port recorded 36% growth during the year with capacity for 2.3 million containers, compared to 1.6 million at the end of 2017.

Emaar, The Economic City continues to develop KAEC with a strategic plan to create a prosperous environment and sustainable development. The Company depended heavily on the necessary infrastructure and services, including the port and industrial zone, to attract investment in companies, factories and commercial and retail facilities to the City, thus stimulating the population's move to KAEC through demand growth for the various real estate services and products of the Company.

The current phase of the strategic plan is to:

1. Continue the development and construction works at KAEC with a focus on the port and Industrial Valley as the most important attracting elements for investors in and the key drivers of construction activities.
2. Continue to attract companies, factories, and commercial establishments, which in turn lead to creating new job opportunities, thus increasing the demand for property products and services.
3. Offer a number of housing products that satisfy all social segments and all income groups, including medium and limited income earners, through direct development by the Company or by real estate investors.
4. Develop the tourism and entertainment sectors in line with the needs of the different groups within the Kingdom to increase recurring revenues and operational profits and increase the number of visitors to KAEC, which in turn plays a role in increasing the demand for different housing products.
5. Embrace and organize international and local events and activities, including government-related cultural, educational, and entertainment events, in addition to meetings of the private sector, which in turn enriches the cultural and social scene in KAEC and increases the demand for its different products.
6. Embrace and attract business entrepreneurs, both small and medium enterprises, and encourage their growth. This in turn makes the growth cycle faster within KAEC and increases the number of residents and visitors, leading to increased services.
7. Develop plans and strategies to expand within education and healthcare and attract specialized entities to invest in these sectors.
8. Maximize the benefit from the geographical location of KAEC and its location between Makkah and Medina, and being connected to both cities by the Haramain High Speed Railway, in addition to its location on the Red Sea coast.

Achievements in 2018 continued

9. Diversify the real estate product base provided by the Company by offering industrial and housing land for sale and rent, specifically to stimulate a faster development cycle and provide additional liquidity needed to develop KAEC.
10. Continue entering into strategic partnerships with the private and public sectors in some necessary mega projects to support and speed up the development of KAEC.
11. Follow best practices in managing and operating KAEC and offering services to investors and residents at affordable prices.

As a result of our strategy, we have continued to accelerate development of the City, which is the only geographical area of the Company's activities. The City now includes a 24-hour global port, one of the fastest growing in the world and at full capacity. It is home to international businesses in many sectors that contribute to KAEC being one of the world's leading shipping and logistics centers.

KAEC also boasts residential projects that serve all segments of society, distinguished projects for education, Prince Mohammad Bin Salman College of Business and Entrepreneurship (MBSC), integrated infrastructure, and hospitality and leisure services serving residents and visitors. During the year, the Company continued to deliver completed housing units in Al-Waha, Al-Shurooq and Al-Murooj Beach Community, in addition to residential lands in Al Talah Gardens.

The Company also signed contracts for industrial lands with several leading companies in the industrial and logistics sector. The Company hosted many celebrations and entertainment events in cooperation with the General Authority for Entertainment and the Ministry of Culture.

Other Decisions and Developments

Several important decisions taken in 2018 included:

A. Emaar, The Economic City held its 15th Annual General Meeting on May 28, 2018, during which the following were endorsed:

1. Approval of the Board of Directors' Report for the fiscal year ended December 31, 2017.
2. Approval of the financial statements for the year ended December 31, 2017.
3. Approval of the Independent Auditor's Report for the year ended December 31, 2017.
4. Appointment of KPMG Al-Fozan & Co. as auditors of the Company from among the candidates, based on the recommendation of the Audit Committee in order to check, review and audit the financial statements for the first, second and third quarters, the 2018 annual financial statements, financial statements for the first quarter of 2019, and deciding the Auditor's fees.
5. Approval of the Board of Directors membership for the year ended December 31, 2017.
6. Approval of the Board Directors remuneration and compensation, as detailed in the Board of Directors' Report for the year ended December 31, 2017.

The Company uses the electronic voting system for shareholders through the Tadawulaty services provided by the Saudi Stock Exchange (Tadawul). Voting for shareholders was opened for a period of five days before the date of the Annual General Meeting.

B. On September 5, 2018, the Board of Directors accepted Mr. Fahd Al-Rasheed's resignation from his post as Group Chief Executive Officer to pursue other duties and responsibilities. The resignation took effect from September 6, 2018. On September 5, 2018, the Board of Directors approved the appointment of Mr. Ahmed Linjawy as Acting Group Chief Executive Officer, effective on September 6, 2018.

C. On December 17, 2018, the Board of Directors' confirmed Mr. Ahmed Linjawy's appointment as Group Chief Executive Officer.

Business Outlook

The next phase focuses on expansion and recording further achievements. The Company is developing new strategies and plans based on the expansion of sectors that have been prioritized by the National Development Plan, in line with Vision 2030. The Company has expertise in port, logistics, land, industrial services and residential projects, and is developing new sectors in which the government aims to engage the private sector to facilitate funding (including tourism, health, education and city management), and to consider other sectors that benefit from the economic activity within the City (such as building management, catering, security, etc).

Financial Results 2018

A. Annual income statements for the years 2014 to 2018

	2014 SR '000	2015 SR '000	2016 SR '000 (as per IFRS)	2017 SR '000 (as per IFRS)	2018 SR '000 (as per IFRS)
Revenue	1,064,342	1,022,957	2,267,771	1,437,976	1,008,234
Cost of revenue	(336,626)	(456,184)	(1,093,607)	(621,933)	(669,827)
Gross profit	727,716	566,773	1,174,164	816,043	338,407
Marketing, general and administrative expenses	(301,660)	(332,664)	(598,266)	(522,565)	(594,118)
Commission realized from bank deposits and murabaha based deposits	13,873	21,868	18,150	15,953	7,737
Financial charges, net	(54,951)	(46,417)	(48,784)	(54,889)	(59,653)
Other income	20,444	120,326	198,769	102,858	209,909
Zakat	(26,600)	(28,584)	(20,000)	(138,038)	(66,000)
Net profit/(loss) prior to non-controlling interests	378,822	301,302	722,050	250,824	(137,588)
Other comprehensive income/(loss)	-	-	(3,076)	(28,057)	7,744
Total comprehensive income/(loss) for the year	378,822	301,302	718,974	222,721	(129,661)
Non-controlling interests share	856	1,415	(2,367)	(9,799)	(2,503)
Net income due to equity holders of the parent company	379,678	302,717	716,607	212,721	(129,661)
Earnings/(loss) per share (SR)	0.45	0.36	0.85	0.28	(0.16)

2016, 2017 and 2018 are calculated in accordance with the International Financial Reporting Standards (IFRS).

The net loss recorded in 2018 is mainly due to:

- Decreased demand for residential and industrial projects compared to the previous year.
- Launch of some new operating assets which led to a net loss for the current year.
- Increase in marketing, general and administrative expenses resulting mainly from the launch of new projects and corporate social responsibility activities.
- The above effects are compensated in part by the increase in other revenues (mainly due to exclusion of the investment properties) and the net profit arising from the interest rate exchange arrangements concluded by the Port Development Company (PDC), along with a decrease in Zakat fees compared to 2017.

Financial Results 2018 continued

B. Transitional balance sheet as at December 31 for the years 2014 to 2018

	2014 SR '000	2015 SR '000	2016 SR '000	2017 SR '000	2018 SR '000
Current assets	4,382,678	4,848,119	4,326,601	3,183,752	2,543,013
Non-current assets	11,823,454	13,189,541	12,242,888	14,185,925	14,798,686
Total assets	16,206,132	18,037,660	16,569,489	17,369,677	17,341,699
Current liabilities	1,636,953	889,962	1,164,369	1,871,088	2,252,406
Non-current liabilities	6,353,786	8,631,003	7,620,721	7,491,469	7,211,834
Shareholders' equity	8,215,393	8,516,695	7,784,399	8,007,120	7,877,459
Total liabilities and shareholders' equity	16,206,132	18,037,660	16,569,489	17,369,677	17,341,699

2016, 2017 and 2018 are calculated in accordance with the International Financial Reporting Standards (IFRS).

C. Operating results for the year ending December 31, 2018 compared to 2017

	2017 SR '000	2018 SR '000	Variation SR '000	Variation ratio %
Revenue	1,437,976	1,008,234	(429,742)	(29.9%)
Cost of revenue	(621,933)	(669,827)	47,894	7.7 %
Gross profit	816,043	338,407	(477,636)	(58.5%)
Marketing, general and administrative expenses	(522,565)	(594,118)	71,553	13.6%
Profit/(loss) on main operations	293,478	(255,711)		

D. Due payments for the 12 months ending on December 31, 2018 compared to 2017

	2017 SR '000	2018 SR '000
Zakat	6,345	62,242
GOSI	5,669	15,687
Government charges (visas, exits and re-entry, work permits)	905	1,474
Economic Cities Authority fees	7,500	7,500
Government fees paid to Economic Cities Authority, including permits	1,763	1,670

Dividend Distribution Policy

The Company's annual net profits are distributed as follows:

1. 10% of the net profits shall be set aside towards the formation of the Company's statutory reserve. The Annual General Meeting may stop this when the stated reserve reaches 30% of the paid capital.
2. The Annual General Meeting, based on the proposal of the Board, may set aside a percentage not exceeding 10% of net profits towards the formation of agreed-on reserve allocated to specific purpose(s).
3. The Annual General Meeting can decide on the formation of other reserves in the amount that achieves the Company's benefits or guarantees the distribution of the most possible stable profits to shareholders. The General Assembly can also deduct from the net profits certain amounts to establish social organizations for the Company's staff or to help what is already established of these organizations.
4. The Annual General Meeting, based on the recommendation of the Board of Directors, can distribute from the remaining amount an amount not less than 5% of the Company's paid capital to the shareholders.
5. An amount not exceeding 10% of the remaining amount shall be allocated as remuneration to the Board members, on the basis that this remuneration must be in balance with the number of meetings attended by the members.
6. The Company can distribute transitional dividends to its shareholders semi-annually or quarterly after abiding by the requirements and regulatory instructions in this regard.

The Company expects to distribute dividends in the coming years, after setting the foundations of KAEC, and the Company's revenues and dividends become clearer.

Loans

Total loans of the Company for the year ending December 31, 2018 were SR 8 billion. There are no loans for the subsidiaries for the year ended December 31, 2018. As per the balance sheet, the Company signed the following financing mandates:

1. During 2011, the parent company received a loan of SR 5,000 million from the Ministry of Finance for the development of KAEC. The loan is secured against a pledge of 24.7 million m^2 of greenfield land. The loan carries annual commission at commercial rates. The Ministry granted the Company a grace period of three years, provided that repayment thereafter would be on seven annual instalments effective from June 1, 2015. However, based on the Group's request submitted before the due date, the Ministry rescheduled the loan in September 2015 by extending the grace period by an additional five years. The principal amount is now repayable in seven annual installments commencing in June 2020, with accrued commission payable on an annual basis.
2. During 2014, the parent company signed an Islamic facility agreement with a commercial bank for a SR 2,000 million Murabaha liquidity finance facility that carries commission at commercial rates. The outstanding balance of the long-term loan, as at December 31, 2018 amounted to SR 1,508.75 million (December 31, 2017: SR 1,500 million). Under the terms of the agreement, the loan is repayable in eight bi-annual instalments from June 30, 2018 to December 31, 2021. The installment due within twelve months, amounting to SR 532.5 million, is classified as current liabilities. The loan is secured against part of KAEC's greenfield land, valued at SR 3,002 million, held by the parent company, and an order note of SR 2,500 million.
3. 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 December 31, 2018 amounted to SR 500 million (31 December 2017: SR 500 million). Under the terms of the agreement, the loan is repayable in eight bi-annual installments from October 20, 2019 to April 20, 2023. The outstanding installment is classified over 12 months as a current liability. The loan is secured against part of KAEC's greenfield land, with a value of SR 1,500 million, of which 56% has already been paid and the remaining amount is in progress. The loan is also secured against an order note of SR 1,200 million.

Loans continued

4. During 2014 and 2015, the Company signed two facility agreements with a commercial bank, each for SR 1,000 million, each carrying commission at prevailing commercial rates. The outstanding balance of the loan on December 31, 2018 was SR 900 million (December 31, 2017: SR 1,000 million). Under the terms of the agreements, the term of the two loans are eight years, with grace periods of three years from the dates of the two agreements. To comply with Sharia principles, an additional facility of SR 250 million has been arranged for each of the agreements to permit rollover (repayment and drawdown) so that the principal amount is available to the Company for the first three years of the loan. The instalment due within 12 months is classified in the amount of SR 200 million as a current liability. The loan facilities are secured against greenfield lands owned by KAEC with a value of SR 3,000 million, of which 50% has already been paid and the remaining amount is in progress. The loan facilities are secured by an order note of SR 1,250 million each.

The amount of commission paid on the loans during 2018 reached SR 59 million.

Board of Directors

Board membership as at December 31, 2018

According to Article 17 of the Articles of Association of the Company, the number of members of the Board of Directors shall be nine, which complies with Paragraph 1 of Article 68 of the Companies Law issued by the Ministry of Commerce and Investment. Accordingly, the Board of Directors was elected for the new three-year term that began on September 26, 2017.

All members are non-executive and independent (except for the position of Managing Director, an executive position which became vacant after the resignation of Mr. Fahd Al-Rasheed on December 7, 2018). Below are the Board members and their membership category according to corporate governance regulations issued by the Capital Market Authority:

Members	Non-executive/ excutive/ independent	Educational qualifications	Directorships (current and previous) in other Saudi and foreign listed companies
H.E. Mohamed Alabbar Chairman	Non-Executive	Bachelor's in Finance and Business Administration, Seattle University. Honorary Doctorate, Seattle University.	Chairman of the Board of Directors of Emaar Real Estate Group, Emaar Malls and Emaar Middle East. Board Member of National Bank of Dubai, Chairman of Dubai Cable Company, Chairman of Amlak Finance Company, Vice Chairman of Dubai World Trade Center, Vice Chairman of Dubai Aluminum Company, Chairman and Founder of Dubai Financial Market.
Mr. Abdullah Kamel Vice Chairman	Non-Executive	Bachelor's in Economics, University of California.	Aseer Company for Trading, Tourism, Industrial, Agricultural, Real Estate & Contracting, Amlak International for Property Financing*, Umm Al Qura Development and Construction*, Durrat Arriyadh Real Estate Development (Director), National Real Estate Development Company (Director), Food Manufacturers Company (Director), New Nahj Company (Director), Kawamel Trading & Contracting (Director), Namariq Arabian Services Company (Director), Makaseb Read Estate Company (Director), Sukuk Regional Investment Company (Director), Bayt Al Tawfeeq Development Company (Director), Dallah Albaraka Holding (Director), Al Khawatem for Trading and Contracting Company (Director), Al Tilal Regional Investment Company (Director), Al Mawajed International for Real Estate Development (Director), Al Ostool Al Arabia for Real Estate Development Company (Director), Al Nusrah Development and Real Estate International Company (Director).

Members	Non-executive/ excutive/ independent	Educational qualifications	Directorships (current and previous) in other Saudi and foreign listed companies
H.E. Khalid Al Molhem Member	Independent	BSc in Electrical Engineering, BSc in Engineering Management.	Aseer Company for Trading, Tourism, Industrial, Agricultural, Real Estate & Contracting, Saudi British Bank, Riyadh Cement*, Former General Manager of Saudi Airlines, Former President of STC.
Mr. Abdulrahman Alrowaita Member	Non-Executive	Bachelor's in Industrial Engineering, Master's in Industrial Engineering, University of Southern California.	Aseer Company for Trading, Tourism, Industrial, Agricultural, Real Estate & Contracting, Halwani Brothers, Research & Marketing Company, Jadwa Investment*, Amlak International for Property Development, Alessa Industries Company*, Wilayah Investment Company*.
Mr. Ahmed Jawa Member	Non-Executive	BA and MBA, University of San Francisco.	Emaar Real Estate Group, Ras Al Khaimah Petroleum Company, Al Salam Bank.
Mr. Fahd Al-Rasheed Member **	Non-Executive	Bachelor's in Business Administration, University of Washington. MBA, Stanford University.	Saudi Airlines Catering Company, Ports Development Company*, Emaar Knowledge Company.
Mr. Abdullah Taibah Member	Independent	Bachelor's in Electrical Engineering, King Fahd University of Petroleum and Minerals.	Saudi Airlines Catering Company, Alessa Industries Company*.
H.E. Saud Al Saleh Member	Independent	Master's in Economics, University of Rhode Island. Bachelor's in Business Administration, Portland State University.	Maad International, Al Baraka Financial Group, Gulf Company for Residential Complexes, Chairman of the Board of Trustees of Riyadh Economic Forum, Secretary General of the Supreme Economic Council at the rank of Minister.
Mr. Jamal Bin Theniyeh Member	Non-Executive	Bachelor's in Administration, UAE University.	Emaar Real Estate Group, Ports Development Company*.
Dr. Faisal Al-Mubarak	Member of the Audit Committee	PhD in Urban Design and Planning, University of Washington. Master's in Urban and Regional Planning, University of Southern California.	Vice Dean for Educational Affairs at Al Faisal University. Chief Executive Officer, Professor of Physical and Strategic Planning at the College of Architecture and Planning, King Saud University. Emaar Knowledge Company*.
Mr. Alaa Al-Jabri	Member of the Audit Committee	Master of Business Administration.	Vice Chairman of Al Rajhi Bank, Medical and Pharmaceutical Services Company*, Rolaco Group*.

* Unlisted company

** The Board of Directors decided to keep the position of Managing Director vacant after the resignation of Fahd Al-Rasheed from his post as Managing Director.

Board of Directors continued

Board meetings in 2018

The Board of Directors held four meetings during 2018, as follows:

	March 26, 2018	May 28, 2018	July 18, 2018	December 12, 2018
H.E. Mohamed Alabbar	⦿	○	⦿	⦿*
Mr. Abdullah Kamel	○	⦿	⦿	⦿
H.E. Khalid Al Molhem	⦿	⦿	○	⦿
Mr. Abdulrahman Alrowaita	⦿	○	⦿	⦿**
Mr. Ahmed Jawa	○	○	⦿	○
Mr. Fahd Al-Rasheed	⦿	⦿	⦿	⦿
Mr. Abdullah Taibah	⦿	⦿	⦿	⦿
H.E. Saud Al Saleh	○	⦿	⦿	○
Mr. Jamal Bin Theniyeh	⦿	⦿	⦿	⦿

⦿ Attended the meeting ○ Did not attend the meeting

* Attended by proxy (where Mr. Jamal Bin Theniyeh is authorized) ** Attended by proxy (where Mr. Fahd Al-Rasheed is authorized)

15th Annual General Meeting

	May 28, 2018
H.E. Mohamed Alabbar	○
Mr. Abdullah Kamel	○
H.E. Khalid Al Molhem	⦿
Mr. Abdulrahman Alrowaita	○
Mr. Ahmed Jawa	○
Mr. Fahd Al-Rasheed	⦿
Mr. Abdullah Taibah	○
H.E. Saud Al Saleh	⦿
Mr. Jamal Bin Theniyeh	⦿

⦿ Attended the meeting ○ Did not attend the meeting

Board Committees

Within the framework of corporate governance, the following committees are established by the Board of Directors: Executive Committee, Audit Committee, and Remuneration and Nomination Committee.

Executive Committee

The Executive Committee comprises four members. The Committee is granted its powers by the Board of Directors, which assigns it the following responsibilities: supervision of the execution of the Company's overall strategy, setting the Company's budget, monitoring the Company's operational and financial performance and reporting to the Board of Directors about financial and strategic affairs, in addition to all related matters.

The Executive Committee comprises the following members:

Name	Position
Mr. Abdulrahman Alrowaita	Chairman
H.E. Khalid Al Molhem	Member
Mr. Fahd Al-Rasheed	Member
Mr. Abdullah Taibah	Member

The Committee held three meetings during 2018, as follows:

	February 27, 2018	March 25, 2018	October 8, 2018
Mr. Abdulrahman Alrowaita	⦿	⦿	⦿
H.E. Khalid Al Molhem	⦿	⦿	⦿
Mr. Fahd Al-Rasheed	⦿	⦿	⦿
Mr. Abdullah Taibah	⦿	⦿	⦿

⦿ Attended the meeting ○ Did not attend the meeting

Audit Committee

The Audit Committee comprises between three and five members, selected from the shareholders and others, taking into consideration the following conditions:

- The Committee must have at least one independent member.
- Not to include any of the Executive Board members.
- The Chairman of the Board must not be a member.
- The Chairman of the Audit Committee must be an independent member.
- Among its members there must be one specialized in finance and accounting.
- It is not allowed for those who work or had worked during the last two years in the executive or financial management of the Company, or with the auditing company, to be part of the Audit Committee.
- The Committee must collectively have enough experience in businesses and deep knowledge of the Company's finance and accounting policies and procedures.
- If a member's seat is vacated, for any reason, the Board of Directors can appoint a temporary member who replaces the previous member to continue the period of the previous member, and this appointment must be presented to the General Assembly in its first meeting. All concerned parties are notified of this appointment as per prevailing regulations.

Board of Directors continued

Audit Committee continued

The Audit Committee focuses on monitoring the Company's businesses and confirming the integrity and correctness of financial reports and statements, and internal auditing systems. The responsibilities of the Committee specifically include:

Financial reports

- Study initial and annual financial statements of the Company before being submitted to the Board of Directors, offering opinions and recommendations to guarantee fairness, integrity and transparency.
- Offer technical opinions, upon the Board of Directors' request. Advise if the Board Of Directors' Report and the Company's financial statements are fair, balanced, understood and include all information that will allow shareholders and investors to evaluate the financial status of the Company, along with its performance, business model and strategy.
- Study any important or unusual matters included in the financial reports.
- Detailed discussion about any issues raised by the financial manager or compliance officer in the Company or financial auditor.
- Verify accounting evaluations adopted in critical matters mentioned in financial reports.
- Study the Company's financial policies, offering opinions about them and making recommendations to the Board.

Internal audit

- Study and review internal and financial audit regulations and risk management in the Company.
- Study the internal audit reports and follow the implementation of corrective measures related to notes mentioned therein.
- Audit and monitor the performance and activities of the Company's Internal Audit Department and review its efficiency, confirm its compliance with international standards in relation to internal audit and business ethics. The Audit Committee must also verify the availability of suitable resources to allow the Internal Audit Department to perform its responsibilities efficiently, and review and approve the budget allocated to this department.
- Recommend to the Board to appoint/exempt the Head of Internal Audit or the Internal Auditor, and define his remuneration in consultation with the Remuneration and Nomination Committee.
- Verify the independence of the Internal Audit Department.

Auditor

- Evaluate the suitability of the auditing firm and recommend its appointment to the Board of Directors, appointing it or reappointing it for the coming year, defining its fees as per the negotiations of the Company's executive management, or exempting it from its duties.
- Verify that the auditor is not offering other technical, managerial or consultancy services to the Company which are not within the scope of auditing and offering its views in this regard.
- Review the plan of the auditor and its businesses, study its reports and notes on the financial statements, verify the answers of the executive management on these notes, follow-up in this regard and verify that no difficulties were faced by the auditor with the Company's management, while performing its duties.
- Study the impacts of any changes in International Financial Reporting Standards (IFRS) or any changes in the regulations on the Company's financial statements and its accounting policies.
- Meet on a regular basis with the auditor and answer its enquiries and questions.
- Verify the independence of the auditor, its objectivity, equity and the efficiency of the auditing process, taking into consideration the related regulations and standards.

Compliance guarantee

- Review company reports submitted to regulatory authorities, including financial statements and data, and verify that the information contained in these reports is consistent with the information in the approved financial statements.
- Review results of the reports of the regulatory authorities and verify that the Company takes the necessary action.
- Verify the Company's compliance with relevant laws, regulations and policies.
- Review contracts and transactions proposed by the Company with related parties and submit their views thereon to the Board of Directors.
- Raise any issues it deems necessary to be taken to the Board of Directors and make recommendations for any action to be taken.
- Review the results of internal investigations for any suspicion of fraud or suspicion of attempting to infringe any law, rules or regulations that have or are likely to have a material impact on the operating results of the Company or its financial position. The Committee shall discuss these results with the Auditor and submit recommendations thereon to the Board of Directors in due time.
- Ensure that there is a strong corporate governance structure, sound management practices, financial and other policies and guidelines that are sufficiently defined and available to all those who need to know thereof.

Evaluating internal control system

The Committee shall annually review the adequacy of the Company's internal control system, which includes operational controls, compliance controls, risk management and compliance assessment. The Committee shall also submit a report on the adequacy of the system. The report shall include other performed works covered by its competencies. This report shall be presented during the Annual General Meeting.

- The Committee shall review and evaluate with the auditor and the Internal Auditor the effectiveness of the Company's internal control system. This system shall be designed to provide reasonable assurance to confirm:

a. Confidentiality, integrity and availability of accurate information
b. Effectiveness and efficiency of operations
c. Asset protection
d. Compliance with regulations, rules, policies, procedures, contracts and the corporate ethics code

- The Committee shall review with the executive management the significant financial and business risks and shall assess the suitability of the operational and automated systems along with the business resume plan in order to ensure the business continuity, efficiency and effectiveness of the Company's operations.

Other duties

- Review the support provided by the executive management to both the Internal Audit Department and the auditor, and confirm that no restrictions were placed thereon during the performance of their duties.
- Report to the Board of Directors on the work carried out by the Committee.
- Consider any other matters requested by the Board of Directors.
- The Audit Committee may request the auditor or Internal Audit Department to review and audit certain matters, meeting with either party to discuss topics that the Committee or the auditor views as necessary to discuss privately, without any representative of the executive management.

On November 13, 2018, the Board of Directors of Emaar, The Economic City Company passed the approval of H.E. Khalid Al Molhem (independent) as an alternate to H.E. Saud Al Saleh, from the date of the decision until the end of the Committee's term on April 23, 2020.

Board of Directors continued

Audit Committee continued

The decision was taken in view of H.E. Saud Al Saleh's personal circumstances and after reference to Article 101 of the Saudi Companies Law, Articles 54 and 64 of the Corporate Governance Regulations issued by the Capital Market Authority (CMA), and the Audit Committee's charter and business controls approved by the Extraordinary General Assembly of Shareholders on April 24, 2017. The decision shall also be voted on at the Company's next Annual General Meeting.

It is noteworthy that H.E. Khalid Al Molhem has a Bachelor's in Electrical Engineering from University of Evansville, USA. He is an independent member of the Board of Directors and previously chaired the Audit Committee, from September 2011 until September 2017.

The Audit Committee comprised the following members up to November 13, 2018:

Name	Position
H.E. Saud Al Saleh	Chairman
Dr. Faisal Al-Mubarak	Member from outside the Board of Directors
Mr. Alaa Al-Jabri	Member from outside the Board of Directors

The Audit Committee comprised the following members after November 13, 2018, which shall be approved by the Annual General Meeting:

Name	Position
H.E. Khalid Al Molhem	Chairman
Dr. Faisal Al-Mubarak	Member from outside the Board of Directors
Mr. Alaa Al-Jabri	Member from outside the Board of Directors

The Committee held three meetings during 2018, as follows:

	March 26, 2018	November 28, 2018	December 4, 2018
H.E. Khalid Al Molhem	–	⦿	⦿
Dr. Faisal Al-Mubarak	⦿	○	⦿
Mr. Alaa Al-Jabri	⦿	⦿	⦿
H.E. Saud Al Saleh	○	–	–

⦿ Attended the meeting ○ Did not attend the meeting – Was not a member of the Committee

Declaration

The Committee declares that it reviewed and approved the quarterly and annual financial statements for 2018 before submitting them to the Board of Directors.

Remuneration and Nomination Committee

The Committee consists of three members, taking into account the following conditions:

- The Chairman of the Committee must be an independent member of the Board of Directors and appointed by Committee members during the first meeting held after its formation.
- Committee members are appointed in a way that guarantees the availability of varied skills and experience, taking into consideration experience suitable to the Company's activities.
- The Committee's Chairman and members must adhere to the principles of fidelity, integrity and loyalty and take care of the Company's and shareholders' interests, putting these ahead of their own interests.
- The Company must notify the authorities of the Committee members' names and positions within five working days from their date of appointment, and about any changes to the membership within five working days of the changes.
- The Committee membership ends at the conclusion of its term, or the end of the member's eligibility according to any laws or regulations or instructions applicable in the Kingdom. The Board is permitted to remove all committee members, or some of them, at any time and Committee members are permitted to resign from the Committee.
- The Chairman of the Committee or any of its members he appoints must attend the Annual General Meeting to answer shareholders' questions.

Responsibilities and duties of the Remuneration and Nomination Committee

The Committee is responsible for studying topics related to it or which are transferred to it by the Board of Directors. It then raises its recommendations to the Board to take the necessary decisions, or takes the decisions itself, if the Board authorizes it to do so.

The Committee focuses on:

Remuneration

- Preparing a clear policy for the remuneration of Board members and Committees emanating from the Board and executive management and submitting them to the Board for consideration, before being approved by the Annual General Meeting, taking into account the performance, disclosure and verification criteria.
- Clarifying the relationship between remuneration awarded and the applicable remuneration policy and indicating any material deviation from this policy.
- Regularly reviewing the Company's remuneration policy and evaluating its effectiveness.
- Recommending to the Board the remuneration of its members, its Committees and senior executives in accordance with the approved policy.
- Reviewing the CEO's remuneration, including long-term and short-term incentives, as well as determining the achievements of the Group Chief Executive Officer and making recommendations thereon to the Board.
- Reviewing and approving the Group Chief Executive Officer's recommendations on the remuneration of senior executives.
- Ensuring that the Company complies with the remuneration policy of the Board of Directors and the members of Committees emanating from the Board of Directors and executive management, as approved by the Annual General Meeting.

Board of Directors continued

Remuneration and Nomination Committee continued

Nominations

- Proposing clear policies and criteria for membership in the Board of Directors and executive management.
- Recommending to the Board of Directors the nomination and re-nomination of members in accordance with approved policies and standards, taking into consideration not to nominate any person previously convicted of the crime of breach of trust.
- Preparing descriptions of the capabilities and qualifications required for Board membership and executive management positions.
- Defining the time that the member is to allocate to the Board's work.
- Annual review of the necessary skills and experience for Board membership and executive management positions, identifying weaknesses and strengths in the Board and executive management, and recommending solutions according to the Company's interests.
- Reviewing the structure of the Board of Directors and executive management and recommending any changes.
- Annual verification of the status of independent members, and ensuring no conflicts of interest exist if the member is on the board of another company.
- Developing job descriptions for executive, non-executive and independent Board members and senior executives of the Company.
- Developing special procedures in the event of vacancy of Board members or senior executives.
- Providing the appropriate level of training and orientation for new Board members about the Company's mission and its achievements so that they can perform their duties with the required efficiency.
- Studying and reviewing the performance of the executive management.
- Studying and reviewing management succession plans for the Company in general, and for the Board of Directors, Group Chief Executive Officer and senior executives.

Remuneration and Nomination Committee powers

The Committee has the right to:

- Investigate any matter that falls within its tasks or any subject specifically requested by the Board of Directors.
- Access the Company's records and documents.
- Request any clarification or statement from Board members, executive management or employees of the Company for the purpose of investigating and enquiring about any information.
- Seek legal and technical advice from any third party or other independent advisory body necessary to assist the Committee in the performance of its functions, provided that this shall be included in the minutes of the Committee meeting.
- Invite any member of the executive management to attend a meeting and provide certain information, provided that this shall be included in the minutes of the Committee meeting.

Remuneration and Nomination Committee members

Name	Position
Mr. Abdullah Taibah	Chairman
Mr. Ahmed Jawa	Member
Mr. Jamal Bin Theniyeh	Member

The Committee held three meetings during 2018, as follows:

	March 13, 2018	September 18, 2018	November 8, 2018
Mr. Abdullah Taibah	⦿	⦿	⦿
Mr. Ahmed Jawa	⦿	⦿	⦿
Mr. Jamal Bin Theniyeh	⦿	⦿	⦿

⦿ Attended the meeting ○ Did not attend the meeting

Shares held by Board members, their spouses and children

Member	Shares held on January 1, 2018	Shares held on December 31, 2018	Ownership of first degree relatives	Change from January 1, 2018 to December 31, 2018
H.E. Mohamed Alabbar	10,000,000	10,000,000	None	Zero
Mr. Abdullah Kamel	1,000	1,000	None	Zero
H.E. Khalid Al Molhem	10,153	10,153	None	Zero
Mr. Abdulrahman Alrowaita	125,000	125,000	None	Zero
Mr. Ahmed Jawa	1,000	1,000	None	Zero
H.E. Saud Al Saleh	1,000	100	None	(900)
Mr. Fahd Al-Rasheed	14,000	14,000	None	Zero
Mr. Jamal Bin Theniyeh	4,107	4,107	None	Zero
Mr. Abdullah Taibah	1,000	1,000	None	Zero

Mr. Abdullah Kamel (Vice Chairman of the Board) owns an interest (right to vote) in each of the following: Dayim Modern Real Estate Company, Aseer Company for Trading, Tourism, Industrial, Agricultural, Real Estate & Contracting, Makaseb Real Estate Company, Al Samaha Commercial, Al Khawatem for Trading and Contracting Company. These companies own various shares in the stocks of Emaar, The Economic City.

He also has full control of the following companies: Kawamel Trading & Contracting, Al Omran International for Property Management, and Namariq Arabian Services Company. These companies own a total of 205,100,000 shares in Emaar, The Economic City.

Board of Directors continued

Executive Management

Name	Position	Academic degree	Experience
Mr. Fahd Al-Rasheed *	Managing Director and Group Chief Executive Officer	Bachelor's in Business Administration from Washington University. MBA from Stanford Business School.	Ten years as Group CEO of Emaar, The Economic City. Previously CFO and Deputy Governor of the Saudi Arabian General Investment Authority (SAGIA).
Mr. Ahmed Linjawy**	Group Chief Executive Officer	Bachelor's in Medical Technology, King Abdulaziz University.	Five years as Deputy CEO and six years as Executive Director for External Affairs, Emaar, The Economic City. Previously ten years at Procter & Gamble.
Mr. Faisal Faruqi	Group Chief Financial Officer	BSc in Economics, California State University.	Ten years as Group CFO, Emaar, The Economic City. Previously AGM at Samba, where he was responsible for establishing a Derivatives department. He also held senior roles in several banks' Treasury departments.
Mr. Charles Biele	CEO, Residential Development	BSc in Civil Engineering and MBA in Finance from Virginia Tech.	Six years at Emaar, The Economic City. Previously with Qatari Diar and Emaar Properties (UAE).
Mr. Ramzi Solh	CEO, Commercial Development	Bachelor's in Economics, University of Western Ontario.	Eleven years at Emaar, The Economic City. Previously with the Saudi Arabian General Investment Authority (SAGIA) and Al-Futtaim Group.
Dr. Hani Gharbawi	General Counsel and Chief Corporate Affairs Officer	BSc in Chemical Engineering, Oregon State University. PhD in Law, Lewis & Clark Northwestern School of Law.	Six years at Emaar, The Economic City. Previously at Aramco and King Abdullah University of Science and Technology.
Mr. Karim Mourad	Executive Director, Chief Compliance Officer & Head of Board and Shareholders Affairs and Secretary of the Board	Bachelor's in Accounting and Finance, Saint Joseph's University. Certified Managerial Accountant from Institute of Managerial Accounting (USA). Certified Internal Auditor from Institute of Internal Auditors (USA).	Eleven years at Emaar, The Economic City. Previously Senior Auditor at Abdul Latif Jamil Company for six years.

* Resigned as Group Chief Executive Officer on September 5, 2018. The Board of Directors decided to keep the position of Managing Director vacant on December 17, 2018.

** Appointed as Group Chief Executive Officer on December 17, 2018.

Shares held by senior executives, their spouses and children

Member	Position	Shares held on January 1, 2018	Shares held on December 31, 2018	Ownership of first degree relatives	Change from January 1, 2018 to December 31, 2018
Mr. Fahd Al-Rasheed	Managing Director and Group Chief Executive Officer	14,000	14,000	None	Zero
Mr. Ahmed Linjawy	Group Chief Executive Officer	None	25,000	None	+25,000
Mr. Ramzi Solh	CEO, Commercial Development	None	None	None	Zero
Mr. Faisal Faruqi	Group Chief Financial Officer	None	None	None	Zero
Mr. Charles Biele	CEO, Residential Development	None	None	None	Zero
Dr. Hani Gharbawi	General Counsel and Chief Corporate Affairs Officer	None	None	None	Zero
Mr. Karim Mourad	Executive Director, Chief Compliance Officer & Head of Board and Shareholders Affairs and Secretary of the Board	None	None	None	Zero

Major shareholders

Shareholder	Owned Shares	Ratio %
Dayim Modern Real Estate Company	146,000,000	17.26%
MI Royal Capital Company	80,000,000	9.4%
Emaar Middle East	50,000,000	5.9%
MI Holdings Company	50,000,000	5.9%
MI Strategic Investments Company	50,000,000	5.9%
MI Partners Company	46,000,000	5.4%

Annual assessment of the Board of Directors

In 2018, the Company conducted an evaluation of the Board's performance in supporting the governance principles. The Secretary to the Board prepared an assessment by which members identified strengths and weaknesses of the Board in terms of governance requirements, through a survey that included questions related to the performance of the Board as a whole, and the performance of individual members.

The survey was completed by the Board members. The results and analysis were presented to the Remuneration and Nomination Committee, with the aim of continuously strengthening corporate governance according to best international practices. Based on these results, training programs will be developed for Board members, as needed.

Related Party Transactions

Related parties represent key shareholders and senior management of the Group and subsidiary companies over which these related parties exercise joint control or significant influence. Transactions with related parties are carried out during the normal business cycle on terms similar to those agreed between the parties. In addition to classification 14, the following are the significant transactions with related parties during the year and their balances:

		Transaction amount	Balance as at	
Related party	Transaction nature	2018 SR '000	31 December 2018 SR '000	31 December 2017 SR '000
Due from related companies				
Sister companies	Rent, general services and service charges	8,557	10,182	2,194
	Real estate sale	27,762	–	–
Senior management	Sale of real estate, public services and service expenses	186	203	377
Board of Directors	Sale of real estate, public services and service expenses	580	4,668	7,329
Total			15,053	9,900
Due to related parties				
Sister companies	Incurred expenses to the Group	–	(2,708)	(2,708)
	Services to the Group	4,187	(305)	(305)
	Advance payment against sale of leased properties and units	–	(7,965)	(8,533)
	Advance payments for the purchase of cables	276	–	–
Senior management	Remuneration	23,197	(7,875)	(18,991)
Board of Directors	Fees and expenses for meeting attendance	4,200	(4,200)	(3,650)
Total			(23,053)	(34,187)

Board of Directors’ and Executive Management Remuneration

The Company’s Articles of Association stipulate the Board of Directors’ remuneration, as well as the remuneration policy for Board members and senior executives approved by the Company’s Annual General Meeting. This indicates that the Remuneration and Nomination Committee shall recommend to the Board the remuneration for Board and Committee members. According to the policy, the Company shall take into account:

- Adherence to the Company’s strategy and objectives.
- Remunerate to encourage Board members and executive management to make the Company successful and achieve long-term development, linking the variable part of remuneration with long-term performance.
- Base remuneration on job level, duties and responsibilities of the member, in addition to educational qualifications, experience, skills and performance level.
- Remuneration consistent with the size, nature and risk level within the Company.
- Take into consideration other companies’ remuneration practices, avoiding what might result from a non-justifiable increase in remuneration and compensation.
- Attract skilled and qualified people, their retention and encouragement, without exaggerating this.
- Coordinate with the Remuneration and Nomination Committee when making new appointments.
- Consider holding or reversing remuneration if it is discovered to be based on non-accurate information presented by a Board member or senior manager. This is to discourage the misuse of job status to receive undeserved remuneration.

According to Article 21 of the Company’s Articles of Association and Article 76 of the Company’s bylaws, remuneration granted to the Board of Directors shall be an identified amount, attendance fees for meetings, in-kind benefits, or a percentage of net profits. Two or more of these may be combined, in line with the provisions of the Company’s bylaws, corporate governance regulations, and the rules and regulations set by the Capital Market Authority in this regard:

- If the Board members’ remuneration is a percentage of net profits, then according to Article 47 of the Company’s bylaws and Article 76 of the companies’ regulations, the remuneration of Board members must not exceed ten percent of the remaining net profits after deducting the approved reserves and distribution of dividends to shareholders in a percentage of not less than five percent of the paid-up capital.
- Differences in the remuneration of Board members are permitted, reflecting the experience of each member and his specialization, duties, responsibilities, independence, number of meetings attended, and other considerations.
- The remuneration of independent Board members must not be a percentage of profits achieved by the Company or based directly or indirectly on the Company’s profitability.
- In all cases, the total remuneration or tangible benefits that a Board member receives must not exceed SR 500,000.00 annually.

The policy of each committee must include the remuneration of its members and the policy of remunerating executive management should include:

- Basic salary (paid at the end of the month and on a monthly basis).
- Allowances that include, for example but not limited to, housing, car, telephone and education for children.
- Insurance benefits, including medical, health, life, and accidents.
- Short-term incentive plans related to performance of the member and the Company, long-term incentive plans such as stock options, and other plans related to retention of staff.
- Other benefits that include, but are not limited to, annual leave, annual air tickets, and end of service indemnity.

The Company paid SR 4,010,000 as salaries and allowances to members of the Board of Directors in 2018, as follows:

	Fixed remuneration							Variable remuneration								
SR '000	Amount	Board meeting attend-ance fees	Total Board meeting attendance fees	Benefits in-kind	Technical, administra-tive and consulting	Chairman, Managing Director or Secretary if a member	Total	Ratio of profits	Periodic remuner-ation	Short-term incentive plans	Long-term incentive plans	Shares granted (value is entered)	Total	Gratuity	Grand total	Expenses
Independent members																
H.E. Khalid Al Molhem	350,000	–	110,274	–	–	–	460,274	–	–	–	–	–	–	–	460,274	–
Mr. Abdullah Taibah	350,000	–	150,000	–	–	–	500,000	–	–	–	–	–	–	–	500,000	–
H.E. Saud Al Saleh	350,000	–	64,726	–	–	–	414,726	–	–	–	–	–	–	–	414,726	–
Total	1,050,000		325,000				1,375,000								1,375,000	
Non-Executive members																
H.E. Mohamed Alabbar	350,000	–	0,000	–	–	–	350,000	–	–	–	–	–	–	–	350,000	–
Mr. Abdullah Kamel	350,000	–	0.000	–	–	–	350,000	–	–	–	–	–	–	–	350,000	–
Mr. Abdulrahman Alrowaita	350,000	–	90,000	–	–	–	440,000	–	–	–	–	–	–	–	440,000	–
Mr. Ahmed Jawa	350,000	–	90,000	–	–	–	440,000	–	–	–	–	–	–	–	440,000	–
Mr. Jamal Bin Theniyeh	350,000	–	90,000	–	–	–	440,000	–	–	–	–	–	–	–	440,000	–
Total	1,750,000		270,000				2,020,000								2,020,000	
Executive member																
Mr. Fahd Al-Rasheed	350,000	–	90,000	–	–	–	440,000	–	–	–	–	–	–	–	440,000	–
Total	350,000		90,000				440,000								440,000	
External members																
Mr. Alaa Al-Jabri	0,000		90,000				90,000								90,000	
Dr. Faisal Al-Mubarak	0,000		85,000				85,000								85,000	
Total	0,000		175,000				175,000								175,000	
Grand total	0,000		4,010,000				4,010,000								4,010,000	

Board of Directors' and Executive Management Remuneration continued

This includes the remuneration of Committee members as follows:

	Fixed remuneration (except meeting attendance fees)	Meeting attendance fees	Total
Executive Committee			
Mr. Abdulrahman Alrowaita	75,000	15,000	90,000
H.E. Khalid Al Molhem	75,000	15,000	90,000
Mr. Fahd Al-Rasheed	75,000	15,000	90,000
Mr. Abdullah Taibah	45,000	15,000	60,000
Audit Committee			
H.E. Saud Al Saleh	59,726	5,000	64,726
H.E. Khalid Al Molhem	10,274	10,000	20,274
Dr. Faisal Al-Mubarak *	75,000	10,000	85,000
Mr. Alaa Al-Jabri *	75,000	15,000	90,000
Remuneration and Nomination Committee			
Mr. Abdullah Taibah	75,000	15,000	90,000
Mr. Ahmed Jawa	75,000	15,000	90,000
Mr. Jamal Bin Theniyeh	75,000	15,000	90,000

* External members (Not members of the Board of Directors)

The Company paid a total of SR 20,276,598 to senior executives including the Group Chief Executive Officer and Group Chief Financial Officer.

Executive Management Remuneration

	Fixed remuneration				Variable remuneration								
Senior executive positions	Salaries	Allowances	Benefits in-kind	Total	Periodic remuner-ation	Dividends	Short-term incentive plans	Long-term incentive plans	Shares granted (value is entered)	Total	Gratuity	Total of remuner-ation for executive (if any)	Total
Total	8,984,032	1,979,017	478,061	11,441,110	2,925,903	–	–	2,413,446	–	5,339,349	3,496,139	–	20,276,598

Operating Structure

As a result of the continued operations of the Company and its activities in the subsidiaries described in this report, the Company has appointed a CEO for the Group and a CEO for each subsidiary. Each CEO shall be responsible for the development or operation of different sectors in the city where the Group of Companies shall be run independently but consistent with direction of the Company and interests of development of the city.

The Group has also recruited a large number of international and local employees to contribute to the work according to requirements of the coming phase, especially after KAEC became operational and witnessed an increase in development operations. In 2018, the Company organized several training sessions and workshops for its personnel.

Subsidiary Companies

The Company owns shares in seven subsidiary companies:

1. **Ports Development Company** is a closed joint stock company based at KAEC. It executes contracts related to managing, developing, maintaining, operating, financing and investing in King Abdullah Port, in addition to all services necessary to operate the port and its facilities. Port Development Company's capital is SR 5.21 billion, distributed over 521 million shares. Emaar, The Economic City owns 260.5 million shares, equivalent to SR 2.605 billion and 50 percent of Port Development Company's capital.
2. **Economic Cities Investments Holding Company,** commercial register number 4602003130. Emaar, The Economic City owns 99 percent of shares and the remaining shares are held by a partner. The company's capital is SR 500,000. It is based at KAEC and is involved with establishing companies or buying shares in existing companies.
3. **Industrial Zones Development Company Limited,** commercial register number 4602211995. Emaar, The Economic City owns a 1 percent share, the Economic Cities Investments Holding Company owns 98 percent of the shares, and the remaining shares are owned by a partner. The company's capital is SR 500,000 and it is based at KAEC, involved with establishing, managing, operating and the provision of services to industrial areas, cities, warehouses and storage areas.
4. **Economic Cities Real Estate Development Company,** commercial register number 4602004969, is a limited liability company based at KAEC. The company's capital is SR 500,000. Emaar, The Economic City owns a 1 percent share, the Economic Cities Investments Holding Company owns 98 percent of the shares, and the remaining shares are owned by a partner. The company is involved with the ownership, purchase, investment, sale, development, marketing, rental and lease of lands, real estate, schools, hospitals, health facilities, sports stadiums and the train station, including lands on behalf of the Company.
5. **Economic Cities Pioneer Real Estate Management Company,** commercial register number 4602004970, is a limited liability company based at KAEC. The company's capital is SR 500,000. Emaar, The Economic City owns a 1 percent share, the Economic Cities Investments Holding Company owns 98 percent of the shares, and the remaining shares are owned by a partner. The company is involved with the establishment, management, development, operation, leasing, rental and provision of services for various types of real estate, commercial, residential and administrative complexes in the economic cities.
6. **Economic Cities Real Estate Operations and Management Company,** commercial register number 4602004968, is a limited liability company based at KAEC. The company's capital is SR 500,000. Emaar, The Economic City owns a 1 percent share, the Economic Cities Investments Holding Company owns 98 percent of the shares, and the remaining shares are owned by a partner. The company is involved with owning, buying, investing, selling, developing, leasing, and renting land and real estate for various residential and commercial purposes in the economic cities on behalf for the Company, establishing and providing various services for real estate, facilities, schools, hospitals and sports stadiums in the economic cities.
7. **Emaar Knowledge Company,** commercial register number 4602006620, is a limited liability company based at KAEC. The company's capital is SR 10 million. Emaar, The Economic City owns 96 percent of the shares and the remaining 4 percent of the shares are owned by subsidiary companies. The Company is involved with the administration and operation of a college specializing in granting Bachelor's and Master's degrees in business administration, establishing college buildings, institutes, the center, housing for students and teachers, schools and sports stadiums.

Corporate Governance

The Board of Directors supervises the Company's compliance with corporate governance rules and regulations issued by the Capital Market Authority. The Governance and Compliance Department coordinates with the Board Secretariat, executive management and Committees to review and update corporate governance policies and practices to promote integrity, transparency and compliance.

The Company is required to disclose in the Board of Directors' Report the regulatory requirements stipulated in the corporate governance regulations issued by the Capital Market Authority, whose regulations shall be applied in full.

The Company is committed to implementing all corporate governance regulations issued by the Capital Market Authority pursuant to Decision No (8-16-2017) dated to February 13, 2017, except for the following paragraphs:

1. Articles 70, 71 and 72, which relate to the formation of a Risk Management Committee. The Company considers that the Audit Committee is fully responsible for the work required by this Committee.
2. Article 95, which refers to the existence of a Governance Committee. The Company considers that the Audit Committee is able to perform this task in full.

Board of Directors' declarations

- The Company asserts that no cash loan of any kind is provided to its Board members, or has guaranteed the members in any loan with others.
- The Company does not have rights of option and subscription for the Board of Directors, senior executives, their spouses and children, whether in shares or debt instruments of the Company or any of the subsidiaries of Emaar, The Economic City.
- The Company had no convertible debt instruments, option rights, subscription notes or similar rights issued by the Company or its subsidiaries during the year 2018.
- The Company affirms that no agreement or waiver was concluded with any of the Board members, shareholders, executives or employees of the Company, whereby the right of profits has been waived.
- The Company affirms that no significant change has been made in its financial records, and that the Company shall comply with the accounting standards issued by the Saudi Organization for Certified Public Accountants (SOCPA). There are also no material observations from the accountant regarding the Company's activities, financial records or financial statements for 2018. The certified accountant has no reservations about these statements.
- The Audit Committee monitors the Company's procedures and internal controls and evaluates their effectiveness through:

- Reviews of the financial statements included in the accounting policies used and discussed with the Company's management and the certified accountant.
- Periodic reports and observations raised by the Company's internal auditor based on the annual audit plan and the extent to which the Company's management takes corrective action on these observations.
- Reports and observations provided by the auditor and the extent to which the Company's management takes corrective action on these observations.
- The various reports requested by the Committee from the Company's management team, which are reviewed and discussed during periodic meetings.

The audit reports referred to above did not show any significant weakness in the Company's internal control system. The majority of the observations are mainly focused on the areas of improving performance, activating the work of departments and divisions, improving their efficiency, and updating their procedures to give the system greater control and better utilization of resources.

Based on all of the above, and taking into account that the objectives of the internal control system are:

- To ensure that the accounting records shall be prepared correctly and increase accuracy and confidence in the accounting data.
- To protect assets and property.
- To maintain integrity in transactions.
- To increase the efficiency of the Company's performance and efficient management of its available resources.
- To comply with various laws, regulations and contracts.

Therefore, the Audit Committee considers that the objectives of the internal control system as stipulated by Emaar, The Economic City have been largely achieved. The Committee also considers that the overall position of the Company's management relevant to internal control is positive, as the majority of activities are governed by formal policies and procedures, and management responds positively to the recommended policies.

In addition, the management of the Company has formed several internal committees from different departments, each committee according to its competence, for the proper conduct of operations and the application of policies and compliance with the various laws applicable to public companies listed on the Saudi Stock Exchange (Tadawul).

- The Company affirms that the Board of Directors has developed a formal policy to regulate conflicts of interest and address possible conflicts of interest relevant to the Board of Directors, executive management and shareholders, including abuse of the Company's assets and facilities, in addition to misconduct resulting from transactions with related parties.
- The Company affirms that it did not receive any statement of interest in shares with voting rights belonging to individuals (other than members of the Board of Directors, senior executives, their spouses and children).
- The Company affirms that no redemption, purchase or cancellation by the Company or its subsidiaries of any refundable debt instruments.
- The Company affirms that no rights of transfer or subscription under debt instruments convertible into shares, option rights or subscription notes.
- The Company affirms that no contracts were signed in 2018 and that there is no any fundamental interest of a Board member as stated in Paragraph 7 in the report.
- The Company affirms that no other investments or reserves were created for the benefit of the Company's employees.
- The company affirms that no person of legal standing, who is entitled under the Company's Articles of Association to appoint representatives on the Board of Directors, has voted on the selection of other members of the Board of Directors.

Zakat and Government Payments

The General Authority for Zakat and Tax issued Zakat assessments for the years from 2006 to 2008 which required an additional Zakat and withholding tax differentials of (SR 90.4 million) in addition to imposing a delay fine. The claim was considered before the Board of Grievances. In line with the appeal procedure and without acknowledgment of the obligation, the Company provided a bank guarantee under appeal against the withholding tax differentials.

The Board of Grievances did not accept the appeal. The Company submitted a petition to the Royal Court in which the Board of Grievances demanded reconsideration of the judgment and reconsideration of the claim. The petition was not accepted and the Company lodged another petition which is currently under consideration.

The claim of the withholding tax was also under consideration by the Board of Grievances, which issued a decision supporting the appeal concerning fines. After the year-end, the Company re-lodged a petition to the Board of Grievances regarding the withholding tax differentials.

The Company completed its Zakat base for the years from 2009 to 2011, submitted the Zakat declarations for the years 2012 to 2017 and obtained registered Zakat certificates.

Zakat and Government Payments continued

Subsidiaries

- Economic Cities Investments Holding Company
- Industrial Zones Development Company
- Economic Cities Pioneer Real Estate Management Company
- Economic Cities Real Estate Operations and Management Company
- Economic Cities Real Estate Development Company
- Emaar Knowledge Company

Economic Cities Investments Holding Company Completed its Zakat assessment up to 2012, submitted its Zakat declarations up to 2017, and received unregistered Zakat certificates up to 2017.

Industrial Zones Development Company Completed its Zakat assessment up to 2012. The General Authority for Zakat and Tax (GAZT) issued the Zakat assessment for 2013 to 2015, under which GAZT claimed a Zakat difference of SR 4.6 million. The Company objected to the GAZT Zakat assessment. In addition, the Company submitted Zakat declaration forms up to 2017 and received the Zakat certificates.

Economic Cities Pioneer Real Estate Management Company and Economic Cities Real Estate Operating and Management Co Ltd (REOM) submitted Zakat assessments for 2013 to 2017 and obtained unregistered Zakat certificates.

Economic Cities Real Estate Development Company submitted its Zakat assessment for 2013 to 2017 and obtained a letter of facilitation as no revenues from operations were recorded.

Emaar Knowledge Company submitted its Zakat assessment for 2016 to 2017 and obtained an unregistered Zakat certificate.

Declaration

The Company abides by the Zakat regulations as per the General Authority of Zakat and Tax in the Kingdom of Saudi Arabia. It lists the annual due Zakat allocations on the net income, and registers the amendments made when effectuating the final Zakat assessment – if any – during the relevant period of assessment.

Shareholder Rights and Annual General Meeting

The Company's bylaws and governance regulations included the necessary procedures and precautions to ensure that all shareholders exercise their statutory rights, among which are:

1. The right to receive dividend payments.
2. The right to receive a share of the Company's assets upon liquidation.
3. The right to attend general assemblies, participate in deliberations and vote on decisions.
4. The right to share disposal.
5. The right to monitor the work of the Board of Directors and file responsibility lawsuits against the members of the Board.
6. The right of enquiry and information request in such a way that does not compromise the interests of the Company or contradict the Capital Market laws and its executive regulations.

The Company also provides all information that enables shareholders to exercise their rights to the fullest extent. This information is complete, accurate and updated in a regular and timely manner through the annual reports, the Company's website, the Tadawul website, and press releases in the application of disclosing information to shareholders without discrimination. The Shareholders' Affairs Division also provides periodic reports to senior management, including a detailed report on shareholders and stock movement, and related to inquiries, proposals and observations about the Company and its performance. The executive management presents to the Board of Directors an annual report containing the required information of investor activity, related Company's shares and their movement. The Company discloses all shareholder or regulatory authority questions that are received during the Annual General Meeting on the Company's website. There are no suggestions or comments by shareholders about the Company and its performance other than those disclosed.

The Company held its 15th Annual General Meeting on May 28, 2018, during which the following were endorsed:

- Approval of the Board of Directors' Report for the fiscal year ended December 31, 2017.
- Approval of the financial statements for the year ended December 31, 2017.
- Approval of the Independent Auditor's Report for the year ended December 31, 2017.
- Appointment of KPMG Al-Fozan & Co. as auditors of the Company from among the candidates, based on the recommendation of the Audit Committee in order to check, review and audit the financial statements for the first, second and third quarters, the 2018 annual financial statements, financial statements for the first quarter of 2019, and deciding the Auditor's fees.
- Approval of the Board of Directors membership for the year ended December 31, 2017.
- Approval of the Board Directors remuneration and compensation, as detailed in the Board of Directors' Report for the year ended December 31, 2017.

We affirm that the Company did not receive from the certified accountants Ernst & Young or KPMG Al Fozan & Co any request to convene the Annual General Meeting during the 2018 financial year and that was not held. We also affirm that the Company did not receive from shareholders owning 5% or more of the capital a request to convene the Annual General Meeting

The Company announced the date of its Annual General Meeting, its place and agenda 25 days in advance. An invitation was published on the Tadawul website and in the city's newspaper. The announcement clarified the rules governing the Annual General Meeting and voting procedures. All shareholders have been given the opportunity to participate effectively and to vote on the agenda items. The shareholders were able to discuss the topics listed on the agenda and ask questions to the members of the Board of Directors and the certified accountant and such questions have been answered. Note that no shareholder holding 5.0 percent or more of the shares of the Company has applied to add one or more items to the agenda of the Annual General Meeting.

The Company affirms that it has avoided any action that might impede shareholders' rights to vote, and verified the shareholders' proxies for non-directors and non-employees. Recognizing the importance of communication with shareholders, the Company continues to:

1. Publish the quarterly and annual financial statements for 2018 on the Tadawul website within the period specified by the Articles of Association.
2. Adhere to the format of the announcements determined by the Capital Market Authority, the required information included, and the dates of publication.
3. Prepare the Board of Directors' report in accordance with disclosure requirements and guidance provided by the Capital Market Authority.
4. Update the Company website (www.kaec.net) with the necessary information reporting on the Company's activities, news and financial results.
5. The Company's Shareholder Affairs Department continues to communicate with shareholders and receive their proposals and questions for the Board of Directors.

All shareholders have been given the opportunity to participate and vote on the agenda items, especially as the Company continued to use the electronic voting system through the Saudi Stock Exchange (Tadawul).

Shareholder Rights and Annual General Meeting continued

The Company received 12 registers of the shareholders during 2018 according to the following schedule:

	Request date	Report date	Request reason
1.	February 8, 2018	February 7, 2018	Companies regulations
2.	March 14, 2018	March 13, 2018	Companies regulations
3.	April 9, 2018	April 8, 2018	Companies regulations
4.	May 8, 2018	May 7, 2018	Companies regulations
5.	May 27, 2018	May 28, 2018	Annual General Meeting
6.	June 6, 2018	June 6, 2018	Companies regulations
7.	June 11, 2018	June 12, 2018	Companies regulations
8.	July 30, 2018	July 31, 2018	Companies regulations
9.	September 2, 2018	September 2, 2018	Companies regulations
10.	October 8, 2018	October 7, 2018	Companies regulations
11.	November 5, 2018	November 4, 2018	Companies regulations
12.	December 2, 2018	November 29, 2018	Companies regulations

Future Risks

As is the case in sizable strategic projects, the construction of a comprehensive city may involve many risks related to the long-term period to finalize the project, and the necessity to adapt to the rapid economic and operational changes that all this implies. Therefore, the Company consults from time to time with experts to ensure the accuracy of assumptions and studies, and to rely on the best practices in carrying out the activities of the Company to guarantee long-term continuity.

The Company specified a general vision of the risks and challenges that it may encounter and which can impact the performance of KAEC's development programs, the most important being:

- Risks related to security and safety in the city.
- Decrease in sales due to the slow economic movement in the Kingdom resulting from the decline of oil prices which affected the investment environment in the public and private sectors, and which also affected the ability of current customers to adhere to their financial and investment obligations in KAEC.
- Activating regulations as stated in the regulations of the Economic Cities Authority and many other new or updated specialized regulations.
- Risks related to cyber-attacks that the Kingdom of Saudi Arabia witnessed during the previous period.

In addition to the above mentioned risks, the Company's management is following and monitoring risks of a financial nature represented in:

Commission rate risk

These are risks related to the fluctuation of the fair value or future cash inflows of monetary instruments due to the change of commission rates in the market. The Group's exposure to the risks of changes in commission rates in the market is related to bank deposits on which it pays commission and on loans from the Ministry of Finance and commercial banks.

The Group manages commission rate risk by monitoring fluctuations in commission rates of currencies they are registered in, and liabilities and assets that it pays commission on.

Currency risk
These are risks related to the fluctuation of the fair value or future cash inflows of monetary instruments due to the changes in foreign currency exchange. The Group during the year did not conduct any major transactions in currencies other than the Saudi riyal and US dollar. Since the US dollar is linked to the Saudi riyal, the Group was not exposed to any major currency risks.

Credit risk
These are risks related to the non-adherence of a party to its commitments, thus causing financial loss to the other party. The Group works on limiting credit risks related to clients through monitoring the current account payables. And according to the sales agreement with clients, the ownership document is transferred to the clients only after receiving the full price.

The Group manages its exposure to credit risks in relation to Murabaha deposits at banks through diversification and investing with other parties of good credit rating.

Liquidity risk
Liquidity risks revolve around the Group facing difficulties in having the funds needed to face its commitments and financial obligations. Liquidity risks can arise from the inability to sell a monetary asset quickly and at a price that equals its fair value. Liquidity risks are managed through regular monitoring and always confirming that enough funds are available from credit facilities to meet any future obligations. The Group expects it will have enough available funds to pay all due liabilities during 12 months from the end of the year.

The Company monitors and evaluates all these risks and deals with them on an ongoing basis through regular follow-ups and reporting to the board of directors, and through taking the right decisions and directions to offset the effects of these risks or reduce their effect to the accepted levels.

Penalties
The Company did not receive any fines from the Capital Market Authority or any other supervisory authority in 2018.

Declarations
Emaar, The Economic City declares that:

1. The financial statements were properly produced.
2. The internal audit system was established on a sound basis, and effectively implemented.
3. There is no doubt concerning the ability of Emaar, The Economic City to continue its activities.

May Allah grant us success.

Board of Directors
Emaar, The Economic City

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Financial Report

Independent Auditors' Report

To the Shareholders of Emaar the Economic City

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

The key audit matter	How our audit addressed the key audit matter
Revenue recognition	
Revenue is an important component of the Group's performance and profitability. 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	In responding to this area of focus, our procedures included the following: • Obtained understanding of the process and key controls surrounding the 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 an 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.

The key audit matter	How our audit addressed the key audit matter
Revenue recognition continued	
Refer to note 4 of the consolidated financial statements for the accounting policy related to revenue recognition and note 6 for the disclosure related to revenue.	• Performed test of details, on a sample basis, to determine whether 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.
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 11 & 12 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.

Other matter

The consolidated financial statements of Emaar The Economic City for the year ended December 31, 2017 were audited by another auditor who expressed an unmodified opinion thereon vide their report dated March 27, 2018.

To the Shareholders of Emaar the Economic City

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the consolidated financial statements and our auditors' report thereon. The 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 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 IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the applicable requirements of the Regulations for Companies 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 auditors' report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 auditors' 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 KPMG Al Fozan & Partners
Certified Public Accountants

Ebrahim Oboud Baeshen
License No. 382

Jeddah, 20 Rajab 1440 H
Corresponding to March 27, 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 SR'000	2017 SR'000
Revenue	6	1,008,234	1,437,976
Cost of revenue	6	(669,827)	(621,933)
GROSS PROFIT		338,407	816,043
EXPENSES			
Selling and marketing	7	(81,742)	(57,051)
General and administration	8	(263,584)	(243,669)
Impairment loss	11,16	(49,835)	(56,408)
Depreciation	11 (a)	(186,514)	(152,368)
Amortisation	13	(12,443)	(13,069)
(LOSS)/PROFIT FROM MAIN OPERATIONS		(255,711)	293,478
OTHER INCOME/(EXPENSES)			
Murabaha deposit income		7,737	15,953
Financial charges		(59,653)	(54,889)
Share of results of equity accounted investee	14 (a)	26,130	31,462
Other income	9	209,909	102,858
(LOSS)/PROFIT FOR THE YEAR BEFORE ZAKAT		(71,588)	388,862
Zakat	26	(66,000)	(138,038)
NET (LOSS)/PROFIT FOR THE YEAR		(137,588)	250,824
OTHER COMPREHENSIVE INCOME/(LOSS)			
Items that will be reclassified to consolidated statement of profit or loss in subsequent periods:			
Share of other comprehensive income/(loss) from equity accounted investee	14 (a)	7,744	(28,057)
Items that will not be reclassified to consolidated statement of profit or loss in subsequent periods:			
Re-measurement gain/(loss) on defined benefit plans	24	183	(46)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		(129,661)	222,721
NET (LOSS)/PROFIT FOR THE YEAR ATTRIBUTABLE TO:			
Equity holders of the Parent Company		(135,085)	240,921
Non-controlling interests		(2,503)	9,903
		(137,588)	250,824
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR ATTRIBUTABLE TO:			
Equity holders of the Parent Company		(127,158)	212,922
Non-controlling interests		(2,503)	9,799
		(129,661)	222,721
(LOSS)/EARNINGS PER SHARE			
Basic and diluted (loss)/earnings per share attributable to ordinary equity holders of the Parent Company (in SR per share)	10	(0.16)	0.28

The attached notes 1 to 35 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 SR'000	2017 SR'000
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	11	5,517,751	5,091,433
Investment properties	12	5,132,148	5,085,439
Development properties	15	1,603,109	1,499,074
Intangible assets	13	18,616	15,198
Investment in equity accounted investees	14	2,422,565	2,388,691
Employees' receivable – Home Ownership Scheme	19	104,497	82,031
Other long-term receivable		–	24,059
TOTAL NON-CURRENT ASSETS		14,798,686	14,185,925
CURRENT ASSETS			
Current portion of employees' receivable – Home Ownership Scheme	19	6,278	4,779
Unbilled revenue		711,467	423,655
Development properties	15	411,098	270,324
Accounts receivables and other current assets	16	761,538	733,074
Murabaha term deposits with banks	17	50,000	524,110
Cash and cash equivalents	18	602,632	1,227,810
TOTAL CURRENT ASSETS		2,543,013	3,183,752
TOTAL ASSETS		17,341,699	17,369,677
EQUITY AND LIABILITIES			
EQUITY			
Share capital	20	8,500,000	8,500,000
Statutory reserve	21	11,536	11,536
Accumulated losses		(634,077)	(502,261)
Effect of reducing the ownership percentage in a subsidiary	22	–	(86)
Equity attributable to the equity holders of the Parent Company		7,877,459	8,009,189
Non-controlling interests	4	–	(2,069)
TOTAL EQUITY		7,877,459	8,007,120

The attached notes 1 to 35 form part of these consolidated financial statements.

Consolidated Statement of Financial Position continued

As at 31 December 2018

	Notes	2018 SR'000	2017 SR'000
NON-CURRENT LIABILITIES			
Long-term loans	23	7,051,250	7,350,000
Employees' terminal benefits	24	64,220	52,758
Unearned financing component on long term receivables		69,493	69,898
Unearned interest income – Home Ownership Scheme	19	26,871	18,813
TOTAL NON-CURRENT LIABILITIES		7,211,834	7,491,469
CURRENT LIABILITIES			
Accounts payable and accruals	25	1,088,063	1,068,002
Zakat payable	26	156,843	153,086
Current portion of long-term loans	23	1,007,500	650,000
TOTAL CURRENT LIABILITIES		2,252,406	1,871,088
TOTAL LIABILITIES		9,464,240	9,362,557
TOTAL EQUITY AND LIABILITIES		17,341,699	17,369,677

The attached notes 1 to 35 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributed to equity holders of the Parent Company						
	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 2018	8,500,000	11,536	(502,261)	(86)	8,009,189	(2,069)	8,007,120
Net loss for the year	–	–	(135,085)	–	(135,085)	(2,503)	(137,588)
Other comprehensive income for the year	–	–	7,927	–	7,927	–	7,927
Total comprehensive loss for the year	–	–	(127,158)	–	(127,158)	(2,503)	(129,661)
Acquisition of non-controlling interests (note 4)	–	–	(4,658)	86	(4,572)	4,572	–
Balance as at 31 December 2018	8,500,000	11,536	(634,077)	–	7,877,459	–	7,877,459
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

The attached notes 1 to 35 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Notes	2018 SR'000	2017 SR'000
OPERATING ACTIVITIES			
(Loss)/profit for the year before Zakat		(71,588)	388,862
Adjustments to reconcile profit for the year before Zakat to net cash flows:			
Depreciation	11 & 12	292,991	232,584
Impairment loss		49,835	56,408
Amortization	13	12,443	13,069
Financial charges		59,653	54,889
Share of results of equity accounted investees	14	(26,130)	(31,462)
Murabaha deposit income		(7,737)	(15,953)
Unwinding of unearned interest income		(1,444)	(332)
Employees' benefit expense – Home Ownership Scheme		10,335	5,236
Provision for development properties	15	(1,329)	3,526
Provision for employees' terminal benefits	24	15,113	13,933
		332,142	720,760
Working capital adjustments			
Employees' receivable – Home Ownership Scheme		(32,857)	(18,150)
Unbilled revenue, net		(287,812)	(332,932)
Development properties		(201,826)	(277,180)
Accounts receivables and other current assets		(70,584)	(179,346)
Other long-term receivable		24,059	24,059
Accounts payable and accruals		(14,154)	(75,343)
Cash used in operations		(251,032)	(138,132)
Financial charges paid		(289,066)	(293,937)
Zakat paid	26	(62,243)	(6,345)
Employees' terminal benefits paid	24	(3,468)	(4,426)
Net cash used in operating activities		(605,809)	(442,840)

The attached notes 1 to 35 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows continued

For the year ended 31 December 2018

	Notes	2018 SR'000	2017 SR'000
INVESTING ACTIVITIES			
Net movement in Murabaha term deposits with banks		474,110	472,890
Murabaha deposit income		7,929	18,276
Additions made to property and equipment		(392,516)	(412,595)
Additions made to investment properties	12	(159,434)	(88,028)
Purchase of intangible assets	13	(15,861)	(8,817)
Net cash used in investing activities		(85,772)	(18,274)
FINANCING ACTIVITIES			
Net movement in long-term loans		58,750	500,000
Net movement in unearned interest income		7,653	11,528
Net cash from financing activities		66,403	511,528
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(625,178)	50,414
Cash and cash equivalents at the beginning of the year	18	1,227,810	1,177,396
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	18	602,632	1,227,810
MAJOR NON-CASH TRANSACTIONS			
Non-cash transactions are reflected in note 11, note 12 and note 15.			

The attached notes 1 to 35 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").

These consolidated financial statements include the results, assets and liabilities of the following registered branches of the Group:

Branch	Commercial Registration Number
Jeddah	4030164269
Riyadh	1010937549
Rabigh	4602006934

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").

2.2 Basis of measurement

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

Certain comparative amounts have been reclassified to conform to the current period's presentation.

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 judgements, 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.

The key judgements, 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 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 judgement 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 judgement, 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS continued

Judgements continued

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.

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 24.

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

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

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2018. 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:

Name	Country of incorporation	Year of incorporation	% of capital held (directly or indirectly)	
			2018	2017
Economic Cities Investments Holding Company ("ECIHC")	Saudi Arabia	2010	100%	99%
Industrial Zones Development Company Limited ("IZDCL")	Saudi Arabia	2011	100%	98%
Economic Cities Real Estate Properties Operation and Management Company ("REOM")	Saudi Arabia	2013	100%	98%
Economic Cities Pioneer Real Estate Management Company ("REM")	Saudi Arabia	2013	100%	98%
Economic Cities Real Estate Development Company ("RED")	Saudi Arabia	2013	100%	98%
Emaar Knowledge Company Limited ("EKC")	Saudi Arabia	2015	100%	100%

4. SIGNIFICANT ACCOUNTING POLICIES continued

Basis of Consolidation continued

Pursuant to the resolutions passed by the shareholders of the above mentioned entities during the year, the Company has acquired remaining shareholdings in ECIHC, IZDCL, REOM, REM and RED. The legal formalities in respect of transfer of these shares are still in process.

Refer to note 14 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.

Current versus non-current classification

Assets

The Group presents assets and liabilities in the consolidated 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

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.

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES continued

Revenue recognition continued

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 hospitality business, services and rental income is based on the 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.

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.

Value added tax
The Group is subject to Value Added Tax ("VAT") for real estate business and other services except exempt supplies in accordance with the VAT regulations prevailing in the Kingdom of Saudi Arabia. The amount of VAT liability is determined by applying the applicable tax rate to the value of supply ("Output VAT") less VAT paid on purchases ("Input VAT"). The Group reports revenue and purchases net of VAT for all the periods presented in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. However, Input VAT related to exempt supplies is added to the cost of purchases whereas Input VAT related to mixed supplies is claimed using the Default Rate Formula.

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.

4. SIGNIFICANT ACCOUNTING POLICIES continued

Property and equipment continued

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.

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 consolidated 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES continued

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.

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.

The operating cycle of development properties is such that the majority of development properties are expected to be realized beyond a period of 12 months from the reporting date. At each reporting date, the management categorizes the development properties as current or non-current based on their expected realisation date.

Financial Instruments

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, transaction costs that are directly attributable to the acquisition of the financial asset are added to the fair value of the respective 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES continued

Financial assets continued

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 other income 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.

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.

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES continued

Provisions continued

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.

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 29.

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

A number of new standards are effective for annual periods beginning January 1, 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

Of those standards that are not yet effective, IFRS 16 is expected to have an impact on the Group's consolidated financial statements in the period of initial application.

a) IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 – Leases, IFRIC 4 – Determining whether an Arrangement contains a Lease, SIC-15 – Operating Leases-Incentives and SIC-27 – Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all the leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also 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, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

Transition to IFRS 16

The Group plans to apply IFRS 16 initially on 1 January 2019 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings, as at 1 January 2019, with no restatement of comparative information.

The Group is currently assessing the impact of adoption of IFRS 16 on its consolidated financial statements.

b) Annual Improvements to IFRSs 2015–2017 Cycle

- IFRS 3 Business Combinations – A company remeasures its previously held interest in a joint operation when it obtains control of the business.
- IFRS 11 Joint Arrangements – A company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
- IAS 12 Income Taxes – A company accounts for all income tax consequences of dividend payments in the same way.
- IAS 23 Borrowing Costs – A company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

The above annual improvements to IFRSs are not expected to have a significant impact on the Group's consolidated financial statements.

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE continued

c) Other Amendments

The following amended standards and interpretations are not expected to have a significant impact on the Company's financial statements.

- IFRIC 23 Uncertainty over Tax Treatments.
- Prepayment Features with Negative Compensation (Amendments to IFRS 9).
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28).
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19).
- Amendments to References to Conceptual Framework in IFRS Standards.
- IFRS 17 – Insurance Contracts
- IFRS 3 – Definition of business
- IAS 1 and IAS 8 – Amendments in respect of definition of Materiality.

6. REVENUE AND COST OF REVENUE

	31 December 2018 SR' 000	31 December 2017 SR' 000
Revenue		
Sale of properties	757,412	1,215,665
Others	250,822	222,311
	1,008,234	1,437,976
Cost of revenue		
Cost of properties (note 15)	(270,324)	(284,818)
Others	(399,503)	(337,115)
	(669,827)	(621,933)

7. SELLING AND MARKETING EXPENSES

	31 December 2018 SR' 000	31 December 2017 SR' 000
Employees' costs	25,432	24,853
Branding and launch costs	28,652	17,924
Public relations	7,149	3,036
Advertising and promotion	6,928	4,698
Others	13,581	6,540
	81,742	57,051

8. GENERAL AND ADMINISTRATION EXPENSES

	31 December 2018 SR' 000	31 December 2017 SR' 000
Employees' costs	173,606	162,855
Professional charges	34,837	36,853
Communication and office costs	20,032	15,666
Facility and city management services	12,618	5,425
Rent	6,187	6,081
Repairs and maintenance	4,677	3,012
Others	11,627	13,777
	263,584	243,669

9. OTHER INCOME

	31 December 2018 SR' 000	31 December 2017 SR' 000
Reimbursement of expenses (see note (a) below)	51,040	54,469
Amortization of unearned interest (see note (b) below)	30,807	35,376
Reversal of accruals no longer required	24,342	7,926
Profit on disposal of investment properties (see note (c) below)	84,114	–
Others	19,606	5,087
	209,909	102,858

a) 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 51 million (2017: SR 54.46 million), incurred during the year, has been reimbursed and accounted for as an other income accordingly.

b) Unwinding of interest income on significant financing component amounting to SR 30.8 million (31 December 2017: SR 35.3 million).

c) During the year, the Group has entered into agreements with certain customers for the sale of investment properties resulting in a gain of SR 84 million.

10. (LOSS)/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.

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. Moreover, no separate earning per share calculation from continuing operations has been presented since there were no discontinued operations during the year.

The (loss)/earnings per share calculation is given below:

	31 December 2018 SR' 000	31 December 2017 SR' 000
(Loss)/profit attributable to ordinary equity holders of the parent	(135,085)	240,921
Weighted average number of ordinary shares ('000)	850,000	850,000
(Loss)/earnings per share (Saudi Riyals) – Basic and Diluted	(0.16)	0.28

11. PROPERTY AND EQUIPMENT

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

	useful live
Buildings	20–50 years
Heavy equipment & machinery	5–10 years
Office equipment	3 years
Infrastructure assets	10–30 years
Leasehold improvements	2 – 10 years
Furniture and fixtures	4 years
Motor vehicles	4 years

	Freehold land SR'000	Buildings SR'000	Leasehold improvements SR'00	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 SR'000
2018										
Cost:										
At the beginning 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
Additions	–	481	17,554	5,112	4,022	9,338	187	1,329	618,121	656,144
Transfers	–	170,858	–	7,831	37,451	10,509	4,449	698,680	(929,778)	–
Transfer from investment properties (note 12)	–	–	–	–	–	–	–	–	17,051	17,051
Impairment (note (e) below)	–	–	–	–	–	–	–	–	(7,909)	(7,909)
At the end of the year	135,283	1,137,566	146,723	63,203	135,342	79,432	14,919	3,030,558	1,759,335	6,502,361
Depreciation:										
At the beginning of the year	–	203,026	38,899	25,520	60,785	41,112	6,690	369,610	–	745,642
Charge for the year	–	39,692	17,958	7,952	30,692	17,706	3,549	121,419	–	238,968
At the end of the year	–	242,718	56,857	33,472	91,477	58,818	10,239	491,029	–	984,610
Net book value										
At 31 December 2018	135,283	894,848	89,866	29,731	43,865	20,614	4,680	2,539,529	1,759,335	5,517,751
2017										
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 12)	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

11. PROPERTY AND EQUIPMENT continued

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

	31 December 2018 SR' 000	31 December 2017 SR' 000
Cost of revenue	52,454	24,852
Others	186,514	152,368
	238,968	177,220

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 198 million (2017: SR 122 million).

d) Freehold land amounting to SR 135 million (2017: SR 135 million), mainly relates to infrastructure assets.

e) During the year, the Group has recorded an impairment loss of SR 7.9 million (2017: SR 48 million) in respect of the projects, which are not actively pursued any further.

f) Property and equipment with the gross carrying amount of SR 185.5 million (2017: SR 140 million) are fully depreciated but are still in use.

g) As at 31 December 2018, an amount of SR 108.8 million (2017: SR 119.8 million) was capitalized as borrowing cost for the construction of property and equipment.

12. INVESTMENT PROPERTIES

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

	useful live
Buildings	20–30 years
Leasehold improvements	2 years
Infrastructure assets	10–30 years

	Land SR'000	Buildings SR'000	Leasehold improvements SR'000	Infrastructure assets SR'000	Capital work-in-progress SR'000	Total SR'000
2018						
Cost:						
At the beginning of the year	2,857,646	1,032,797	945	435,530	926,285	5,253,203
Additions	–	–	–	–	159,434	159,434
Transfers	–	–	–	2,753	(2,753)	–
Disposal	(2,861)	(7,668)	–	(2,753)	–	(13,282)
Transfer to development properties (note 15)	(29,577)	–	–	–	–	(29,577)
Transfer to property and equipment (note 11)	–	–	–	–	(17,051)	(17,051)
At the end of the year	2,825,208	1,025,129	945	435,530	1,065,915	5,352,727
Depreciation:						
At the beginning of the year	–	101,249	945	65,570	–	167,764
Charge for the year	–	36,776	–	17,247	–	54,023
Disposal	–	(1,208)	–	–	–	(1,208)
At the end of the year	–	136,817	945	82,817	–	220,579
Net book value						
At 31 December 2018	2,825,208	888,312	–	352,713	1,065,915	5,132,148
2017						
Cost:						
At the beginning of the year	2,862,092	822,335	945	435,530	1,048,719	5,169,621
Additions	–	–	–	–	88,028	88,028
Transfers	–	210,462	–	–	(210,462)	–
Transfer to development properties (note 15)	(2,268)	–	–	–	–	(2,268)
Transfer to property and equipment (note 11)	(2,178)	–	–	–	–	(2,178)
At the end of the year	2,857,646	1,032,797	945	435,530	926,285	5,253,203
Depreciation:						
At the beginning of the year	–	66,067	945	45,388	–	112,400
Charge for the year	–	35,182	–	20,182	–	55,364
At the end of the year	–	101,249	945	65,570	–	167,764
Net book value						
At 31 December 2017	2,857,646	931,548	–	369,960	926,285	5,085,439

12. 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 20). 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 2,825 million (2017: SR 2,858 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 23(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 23(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 2018, 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
2018	–	47,738,807	–	47,738,807
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:

	2018 SR'000	2017 SR'000
Rental income	2,306,940	2,227,793
Currently undetermined future use	2,825,208	2,857,646
	5,132,148	5,085,439

d) As at 31 December 2018, an amount of SR 37.83 million (2017: 26.3 million) was capitalized as cost of borrowing for the construction of investment properties.

13. INTANGIBLE ASSETS

The movement in the intangible assets are as follows:

	31 December 2018 SR' 000	31 December 2017 SR' 000
Cost:		
At the beginning of the year	83,246	74,429
Additions	15,861	8,817
At the end of the year	99,107	83,246
Amortization:		
At the beginning of the year	(68,048)	(54,979)
Charge for the year	(12,443)	(13,069)
At the end of the year	(80,491)	(68,048)
Net book value	18,616	15,198

14. INVESTMENT IN EQUITY ACCOUNTED INVESTEES

	Effective ownership interest (%)		Balance as at	
	31 December 2018	31 December 2017	31 December 2018 SR'000	31 December 2017 SR'000
Investment in Port Development Company ("PDC") (see note (a) below)	50%	50%	2,376,775	2,342,901
Investment in Biyoutat Progressive Company for Real Estate Investment & Development ("Biyoutat") (see note (b) below)	20%	20%	45,790	45,790
			2,422,565	2,388,691

a) Port Development Company

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

	2018 SR'000	2017 SR'000
Balance at the beginning of the year	2,342,901	2,339,496
Share of results for the year, net of Zakat charge	26,130	31,462
Share of other comprehensive income/(loss)	7,744	(28,057)
Balance at the end of the year	2,376,775	2,342,901

14. INVESTMENT IN EQUITY ACCOUNTED INVESTEES continued

a) Port Development Company continued

Quantitative information of PDC is as follows:

	31 December 2018 SR' 000	31 December 2017 SR' 000
Non-current assets	7,900,555	7,846,806
Current assets	457,100	295,524
Non-current liabilities	(2,439,445)	(2,375,419)
Current liabilities	(585,494)	(491,286)
Equity	5,332,716	5,275,625
Group's share in equity – 50% (2017: 50 %)	2,666,358	2,637,812
Elimination of share of profit on sale of land and commission income	(287,714)	(287,714)
Adjustments related to piecemeal acquisition and share of Zakat	(1,869)	(7,197)
Group's carrying amount of the investment	2,376,775	2,342,901

	31 December 2018 SR' 000	31 December 2017 SR' 000
Revenue	317,844	311,118
NET INCOME FOR THE YEAR	55,110	66,261
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent years	15,490	(56,114)
Total comprehensive income for the year	70,600	10,147
Group's share of profit for the year, net of related Zakat charge	26,130	31,462
Group's share of other comprehensive income/(loss) for the year	7,744	(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. The subject facility has been enhanced to SR 180 million during 2018.

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

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 2018, the subject Swap Contracts had a negative fair value of SR 40.62 million (2017: 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 statement of profit and loss and other comprehensive income. The Group has recorded an amount of SR 7.7 million (2017: SR 28.06 million), within other comprehensive income/(loss) of the consolidated statement of profit or loss and other comprehensive income, being the portion of its share.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item.

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 Shareholders' 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 2018 SR' 000	31 December 2017 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

15. DEVELOPMENT PROPERTIES

	31 December 2018 SR' 000	31 December 2017 SR' 000
Costs incurred to date	1,769,398	1,493,476
Additions	486,885	561,998
Transferred from investments properties (note 12)	29,577	2,268
	2,285,860	2,057,742
Transfer to cost of revenue (note 6)	(270,324)	(284,818)
Provision for development properties	(1,329)	(3,526)
	2,014,207	1,769,398
Current portion of development properties	(411,098)	(270,324)
Non-current portion of development properties	1,603,109	1,499,074

Development properties include land amounting to SR 176.8 million (2017: SR 168.9 million).

As at 31 December 2018, an amount of SR 128 million (2017: SR 103 million) was capitalized as cost of borrowing for the construction of development properties.

16. ACCOUNTS RECEIVABLES AND OTHER CURRENT ASSETS

	31 December 2018 SR' 000	31 December 2017 SR' 000
Gross accounts receivable	647,204	659,569
Less: Provision for doubtful debts (see notes below)	(86,411)	(49,696)
	560,793	609,873
Prepayments	41,772	33,695
Advances to suppliers	32,232	21,022
VAT receivable	31,394	–
Contribution receivable	18,427	2,215
Commission receivable on Murabaha term deposits	508	700
Amounts due from related parties (note 27)	15,053	9,900
Others	61,359	55,669
	761,538	733,074

a) As at 31 December 2018, accounts receivable at nominal value of SR 86.4 million (2017: SR 49.6 million) were impaired. The unimpaired accounts receivables include SR 403 million (2017: SR 336 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 2018 SR' 000	31 December 2017 SR' 000
At the beginning of the year	49,696	45,356
Provision for the year	37,200	7,835
Doubtful debts written-off	(485)	(3,495)
At the end of the year	86,411	49,696

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

			Past due but not impaired				
	Total SR'000	Neither 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 2018	647,204	47,169	18,038	35,695	17,034	50,854	478,414
31 December 2017	659,569	120,171	28,964	17,162	77,451	38,907	376,914

c) Future commitment of receivables against signed sales contracts as of 31 December 2018, amounted to SR 1,269.8 million.

17. MURABAHA TERM DEPOSITS WITH BANKS

	31 December 2018 SR' 000	31 December 2017 SR' 000
Murabaha deposits (note 18)	598,655	1,501,910
Short-term Murabaha deposits (note 18)	(548,655)	(977,800)
	50,000	524,110

18. CASH AND CASH EQUIVALENTS

	31 December 2018 SR' 000	31 December 2017 SR' 000
Cash and bank balances	53,977	250,010
Short-term Murabaha deposits (see note below and note 17)	548,655	977,800
	602,632	1,227,810

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 2018 amounted to SR 11.7 million (2017: SR 3.2 million). These deposits/balances are not under lien.

19. 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.

	Gross receivable		Present value of gross receivable		Unearned interest income	
	31 December 2018 SR'000	31 December 2017 SR'000	31 December 2018 SR'000	31 December 2017 SR'000	31 December 2018 SR'000	31 December 2017 SR'000
Current portion	6,278	4,779	3,462	2,795	2,816	1,984
Non-current portion:						
One to five years	25,111	19,111	15,033	12,032	10,078	7,079
Over five years	79,386	62,920	62,593	51,186	16,793	11,734
	104,497	82,031	77,626	63,218	26,871	18,813
	110,775	86,810	81,088	66,013	29,687	20,797

20. SHARE CAPITAL

The Parent Company's share capital is divided into 850 million shares of SR 10 each (2017: 850 million shares of SR 10 each), allocated as follows:

	2018		2017	
	Number of Shares' 000	Capital SR'000	Number of Shares' 000	Capital SR'000
Issued for cash	680,000	6,800,000	680,000	6,800,000
Issued for consideration in kind (note 12(a))	170,000	1,700,000	170,000	1,700,000
	850,000	8,500,000	850,000	8,500,000

21. STATUTORY RESERVE

In accordance with the 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. Since the Company has incurred net loss for the year, no such transfer has been made.

22. 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. During the year, the Company has acquired remaining 1% shareholding in IZDCL, thereby resulting in settlement of SR 86,379 in favour of the Company (see note 4).

23. TERM LOANS

	31 December 2018 SR' 000	31 December 2017 SR' 000
Ministry of Finance ("MoF") loan (see note (a) below)	5,000,000	5,000,000
Others (see note (b) below)	2,908,750	3,000,000
	7,908,750	8,000,000
Current portion of long-term loans (see note (b) below)	(857,500)	(650,000)
Non-current portion of long term loans	7,051,250	7,350,000
Short-term loan (see note (c) below)	150,000	–
Current portion of long term loans (see note (b) below)	857,500	650,000
	1,007,500	650,000

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 installments 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 2018, amounted to SR 1,508.75 million (31 December 2017: 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 532.5 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 2018, amounted to SR 500 million (31 December 2017: SR 500 million). 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 installment due within twelve-month, amounting to SR 125 million is classified as a current liability. 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 2018, amounted to SR 900 million (31 December 2017: 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 200 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.

23. TERM LOANS continued

c) During the year, the Company has availed a short-term facility agreement from a commercial bank, amounting to 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. The outstanding balance of the facility, as at 31 December 2018, amounted to SR 150 million.

24. 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 2018 SR' 000	31 December 2017 SR' 000
Balance at the beginning of the year	52,758	43,205
Included in consolidated statement of profit or loss		
Current service cost	13,257	12,205
Interest cost	1,856	1,728
	15,113	13,933
Included in consolidated statement of other comprehensive income		
Actuarial (gain)/loss	(183)	46
Benefits paid	(3,468)	(4,426)
Balance at the end of the year	64,220	52,758

Actuarial assumptions

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

	31 December 2018	31 December 2017
Discount rate	4.38%	3.5%
Expected rate of future salary increase		
- First three years		
- Thereafter	5%	4%
	5%	4%
Mortality rate	1.17%	1.17%
Employee turnover rate	7.50%	7.50%
Retirement age	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 2018		31 December 2017	
	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%	(4,753)	5,481	(4,196)	4,843
Expected rate of future salary increase	1%	5,391	(4,769)	4,768	(4,215)
Mortality rate	10%	(17)	17	(15)	15
Employee turnover rate	10%	(586)	628	(505)	540

25. ACCOUNTS PAYABLE AND ACCRUALS

	31 December 2018 SR' 000	31 December 2017 SR' 000
Trade accounts payable	312,714	201,740
Retentions payable	200,484	233,111
Amounts due to related parties (note 27)	23,053	34,187
Amounts to be donated for charitable purposes (see note below)	49,847	55,650
Advances from customers	122,734	179,720
Accrued expenses and other payables	103,625	123,403
Contract cost accruals	117,620	117,252
Accrued financial charges	155,170	120,955
Unearned interest income – Home Ownership Scheme (note 19)	2,816	1,984
	1,088,063	1,068,002

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.

26. ZAKAT

Charge for the year

	31 December 2018 SR' 000	31 December 2017 SR' 000
Current year provision	66,000	51,465
Adjustment related to prior years	–	86,573
Charge for the year	66,000	138,038

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

26. ZAKAT continued

Movement in provision

The movement in the Zakat provision is as follows:

	31 December 2018 SR' 000	31 December 2017 SR' 000
At the beginning of the year	153,086	29,319
Charge for the year	66,000	138,038
Adjustment related to prior years	–	(7,926)
Payments during the year	(62,243)	(6,345)
At the end of the year	156,843	153,086

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 by the BOG and they maintained the previous decision.

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

The Company's Zakat assessment for the years 2009 to 2011 was finalized and final certificate obtained. The Company filed the Zakat returns for the years 2012 to 2017 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 2017. Unrestricted Zakat certificates have been obtained up to the year 2017.

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 2017 and obtained the Zakat certificates.

REOM and REM have filed their Zakat returns for the period/years from 2013 to 2017 and obtained unrestricted Zakat certificates.

RED has filed its Zakat returns for the period/years from 2013 to 2017 and obtained un-restricted Zakat certificate.

EKC has filed the Zakat return for the period/years from 2016 to 2017 and obtained un-restricted Zakat certificate.

27. 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 14, following are the significant related party transactions during the year and the related balances:

		Amounts of Transactions		Balance as at	
Related party	Nature of transactions	2018 SR' 000	2017 SR' 000	31 December 2018 SR' 000	31 December 2017 SR' 000
Amounts due from related parties					
Affiliates	Lease rentals, utilities and service charges	8,557	8,749	10,182	2,194
	Sale of properties	27,762	–		–
Key management personnel	Sale of properties, utilities and service charges	186	7,214	203	377
Board of directors	Sale of properties, utilities and service charges	580	6	4,668	7,329
Total				15,053	9,900
Amounts due to related parties					
Affiliates	Expenses incurred on behalf of the Group	–	890	(2,708)	(2,708)
	Services provided to the Group	4,187	26,269	(305)	(305)
	Advance against sale of properties and leased units	–	–	(7,965)	(8,533)
	Purchase of goods	276	523	–	–
Key management personnel	Remuneration	23,197	34,600	(7,875)	(18,991)
Board of directors	Remuneration and meeting fees	4,200	3,650	(4,200)	(3,650)
Total				(23,053)	(34,187)

Compensation of key management personnel of the Group

	31 December 2018 SR' 000	31 December 2017 SR' 000
Short-term employee benefits	15,981	24,816
Non-monetary benefits	401	823
Post-employment benefits	2,434	1,312
Termination benefits	2,375	1,767
Other long-term benefits	2,006	5,882
	23,197	34,600

28. CONTINGENT LIABILITIES AND COMMITMENTS

In addition to disclosure set out in note 14, 23 and 26, contingent liabilities and commitments, as at 31 December 2018, are described as below:

a) The Group has outstanding commitments related to future expenditure for the development of KAEC in coming few years, amounting to SR 1,271 million (31 December 2017: SR 1,149 million).

b) 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.

c) Operating lease commitments:

Group as lessee

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

	31 December 2018 SR' 000	31 December 2017 SR' 000
Within one year	2,115	2,890
After one year but not more than five years	39,928	8,348
More than five years	49,238	–
	91,281	11,238

Group as lessor

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

	31 December 2018 SR' 000	31 December 2017 SR' 000
Within one year	53,740	53,924
After one year but not more than five years	201,941	204,442
More than five years	617,315	675,398
	872,996	933,764

29. 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. 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

	Residential business SR'000	Industrial development SR'000	Hospitality and leisure SR'000	Others SR'000	Total SR'000
For the year ended:					
31 December 2018					
Revenue	561,626	251,047	49,109	146,452	1,008,234
Results					
Operating profit/(loss) for the year	137,143	173,761	(85,602)	(481,013)	(255,711)
Unallocated other income/(expenses)					184,123
Loss before Zakat					(71,588)
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	(56,211)	(455,113)	293,478
Unallocated other income/(expenses)					95,384
Profit before Zakat					388,862

30. 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.

The Board of Directors has an overall responsibility for the establishment and oversight of the Group's risk management framework. The 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.

30. FINANCIAL INSTRUMENTS RISK MANAGEMENT continued

Overview continued

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, other liabilities and term loans. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include investment in equity accounted investees, 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 along with 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 12.3% (2017: 29%) of outstanding accounts receivable as at 31 December 2018. 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.

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
2018	+100	14,310
	–100	(14,310)
2017	+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.

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

	Less than 3 months SR'000	3 to 12 months SR'000	More than 12 months SR'000	Total SR'000
31 December 2018				
Long-term loans	150,000	857,500	7,051,250	8,058,750
Accounts payable and accruals	–	962,513	–	962,513
	150,000	1,820,013	7,051,250	9,021,263
31 December 2017				
Long-term loans	–	650,000	7,350,000	8,000,000
Accounts payable and accruals	–	886,298	–	886,298
	–	1,536,298	7,350,000	8,886,298

31. 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 2018, the Group's gearing ratio is 50% (2017: 48%).

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 2018 and 31 December 2017.

32. 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 2018 and 31 December 2017, 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 accounts receivables as at 31 December 2018 and 31 December 2017.

During the year ended 31 December 2018, there were no movements between the levels.

33. 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.

34. MATERIAL PARTLY-OWNED SUBSIDIARIES

The following table summarizes the statement of financial position of these subsidiaries as at 31 December 2018. 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	4,411,353	1,169,945	1,480,816	547,564	1,924,006
Total liabilities	5,443	75,848	108,136	78,358	471,800
Total equity	4,405,910	1,094,097	1,372,680	469,206	1,452,205

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	4,532,477	1,074,454	1,556,515	580,336	1,817,690
Total liabilities	3,839	40,735	133,921	63,873	282,733
Total equity	4,528,637	1,033,789	1,422,595	516,464	1,534,918
Attributable to:					
Owner of the parent	4,483,351	1,013,320	1,394,428	506,238	1,504,527
Non-controlling interest	45,286	20,469	28,167	10,226	30,391

34. MATERIAL PARTLY-OWNED SUBSIDIARIES continued

The following table summarizes the statement of profit and loss of these subsidiaries for the year ended 31 December 2018. 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
Revenue	5,750	155,388	81,532	45,220	14,702
Profit/(loss) for the year	(121,228)	60,506	(48,738)	(46,953)	(82,849)
Total comprehensive (loss)/income for the year	(122,727)	60,308	(49,915)	(47,258)	(82,713)
Attributable to:					
Owner of the parent	(122,693)	59,929	(49,414)	(46,520)	(81,104)
Non-controlling interest	(34)	379	(501)	(738)	(1,609)

The following table summarizes the statement of profit and loss 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
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)

35. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorized to issue by the Board of Directors on Rajab 20, 1440H Corresponding to March 27, 2019.

Designed and produced by Group Origin

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