

# Shareholder Circular

## Emaar, The Economic City ("EEC")

A Saudi public joint stock company established pursuant to Ministerial Resolution No. 609 dated 15/04/1427H (corresponding to 13/05/2006G), with Initial Commercial Registration No. 4030164269 dated 08/09/1427H (corresponding to 26/09/2006G) issued in Jeddah, KSA (referred to hereinafter as the "Kingdom"), as amended by Commercial Registration No. 4602005884 dated 06/03/1436H (corresponding to 28/12/2014G) issued in Rabigh, KSA.



The Shareholders' approval must be obtained to increase the capital by issuing New Shares to convert the debt under this Circular.

A meeting of EEC's Extraordinary General Assembly was called to approve the issue of New Shares on 24 Muharram 1443H (corresponding to 1 September 2021G). The Shareholders should note that if their approval is not obtained to issue the New Shares constituting the subject matter hereof, they will not be issued, the debt conversion shall be suspended, and this Circular shall then be considered null and void. In such a case, the Shareholders shall be notified of the same via EEC's page on the Saudi Stock Exchange's (Tadawul) website.

Emaar, The Economic City (referred to hereinafter as "EEC" or the "Company") shall issue two hundred eighty-three million three hundred thirty-three thousand three hundred thirty-four (283,333,334) new ordinary shares (referred to hereinafter as the "New Shares") with a nominal value of ten Saudi Riyals (SAR 10) per ordinary share to the Public Investment Fund (referred to hereinafter as "PIF") against the conversion of debt that EEC will owe to PIF (as the Creditor), amounting to two billion eight hundred thirty-three million three hundred thirty-three thousand three hundred forty Saudi Riyals (SAR 2,833,333,340) (referred to hereinafter as "Debt"), to ordinary shares in EEC (referred to hereinafter as "Debt Conversion"). PIF will become the Creditor after transferring part of the loan owed by EEC to the Ministry of Finance (referred to hereinafter as "MOF Loan") worth the same amount as the debt under the Partial Transfer Agreement concluded between MOF and PIF on 07/08/1442H (corresponding to 20/03/2021G) (referred to hereinafter as the "Loan Transfer Agreement"), whereby the amount of debt owed by EEC shall be transferred to PIF instead of MOF automatically and concurrently with the date of EEC Extraordinary General Assembly's approval of the debt conversion (referred to hereinafter as the "Effective Date"). After transferring part of MOF Loan to PIF on the Effective Date, PIF shall be the Relevant Creditor in connection with the debt conversion. Accordingly, all New Shares shall be issued to PIF (for further details about the debt conversion transaction, see Section 3 "Conversion of Debt to Shares through Capital Increase" of this Circular, and for further details about the conversion of debt from the MOF to PIF, see Section 6-2 "Details of Debt Conversion Documents" of this Circular). Hence, this will result in the increase of EEC's capital from eight billion five hundred million Saudi Riyals (SAR 8,500,000,000) to eleven billion three hundred thirty-three million three hundred thirty-three thousand three hundred forty Saudi Riyals (SAR 11,333,333,340), and the increase of the number of ordinary shares from eight hundred fifty million (850,000,000) ordinary shares to one billion one hundred thirty-three million three hundred thirty-three thousand three hundred thirty-four (1,133,333,334) ordinary shares. The increase percentage represents thirty-three percent (33%) of EEC's capital before the increase, and twenty-five percent (25%) of EEC's capital after the increase. All New Shares shall be issued to PIF, which means that PIF will own twenty-five percent (25%) of EEC's capital after the increase. The issue price has been determined based on the nominal value of the New Shares (referred to hereinafter as the "Issue Price") (for further details about the issue price, see Section 3-4 (Assessment of Debt and New Shares)). The New Shares shall have all the rights of the existing shares, including voting rights, dividend and repurchase rights, or the right to surplus assets upon liquidation, dissolution, etc., and any other rights.

EEC's current capital amounts to eight billion five hundred million Saudi Riyals (SAR 8,500,000,000), divided into eight hundred fifty million (850,000,000) ordinary shares with a fully paid nominal value of ten Saudi Riyals (SAR 10) per share (referred to hereinafter as the "Shares"). All Shares are listed on the Saudi Stock Exchange market (Tadawul) (referred to hereinafter as the "Exchange" or "Tadawul").

In its meeting held on 23/09/1442H (corresponding to 05/05/2021G), EEC's Board of Directors (referred to hereinafter as the "Board" or "Board of Directors") recommended to increase EEC's capital by issuing New Shares with a nominal value of ten Saudi Riyals (SAR 10) per share. New Shares amounting to two billion eight hundred thirty-three million three hundred thirty-three thousand three hundred forty Saudi Riyals (SAR 2,833,333,340) shall be granted to PIF, as set out in Section 6-2 (Details of Debt Conversion Documents) of this Circular, against the settlement of part of the MOF Loan, after obtaining the necessary statutory approvals and the approval of EEC's Extraordinary General Assembly (for further details, see Section 3 (Conversion of Debt to Shares through Capital Increase) hereof).

After obtaining the approval of the Capital Market Authority of the KSA (referred to hereinafter as the "CMA") to publish this Circular, EEC will invite the Shareholders (as defined in Section 1 (Definitions and Abbreviations Used in this Circular) hereof) to attend an Extraordinary General Assembly meeting in order to consider the following agenda: (i) Voting (either in favor or opposition) on increasing EEC's capital by converting the debt; (ii) Authorizing the Directors to take all financial, statutory and other procedures relating to the completion of the debt conversion, including signing all contracts and documents needed for the debt conversion process; and (iii) Voting (either in favor or opposition) on the following: (a) Endorsing the Subscription and Debt Conversion Agreement (as defined in Section 1 (Definitions and Abbreviations Used in this Circular) hereof) concluded between EEC, PIF and the Substantial Shareholders; (b) Issuing the New Shares for EEC and granting them to PIF in accordance with the terms and conditions of the Subscription and Debt Conversion Agreement (for further details about the Subscription and Debt Conversion Agreement, see Section 6-2 (Details of Debt Conversion Documents) hereof); and (c) Amending EEC's Articles of Association to be compatible with the debt conversion.

This increase in EEC's capital aims to improve EEC's liquidity and credit position in order to provide greater solvency in relation to its financial obligations, and to improve EEC's ability to achieve its growth goals (for further details about the reasons for the debt conversion, see Section 3-1 (Reasons for Debt Conversion and Implications for EEC) hereof) and Section 6-2 (Details of Debt Conversion Documents) hereof).

EEC and a number of its Substantial Shareholders have entered into the Subscription and Debt Conversion Agreement with PIF (conditional on obtaining the approval of EEC's Extraordinary General Assembly), under which EEC's capital shall be increased by converting the debt to New Shares for EEC. The nominal value of these New Shares shall be ten Saudi Riyals (SAR 10) per share, and PIF shall be granted all of the New Shares against the settlement of part of the MOF Loan owed by EEC (which will be transferred from MOF to PIF automatically and concurrently with the approval of EEC's Extraordinary General Assembly for the debt conversion), noting that the issue price was determined based on the nominal value of the New Shares. The completion of the debt conversion and allocation of New Shares to PIF pursuant to this agreement will constitute the final clearance and settlement between EEC and PIF in respect of the concerned part of the MOF Loan. As such, EEC will be held harmless in case of any relevant future claims regarding this part of MOF Loan (for further details about the debt conversion, see Section 6-2 (Details of Debt Conversion Documents) hereof).

The debt conversion does not involve transactions with any Related Parties.

As at the date of this Circular, PIF or MOF does not have any shares in EEC's capital. However, after converting the debt, PIF will have (25%) of EEC's capital, and MOF will not own any shares in EEC's capital after the Debt Conversion. The New Shares shall be issued to PIF at the value of the debt. Further, the number of New Shares to be issued will be calculated based on the issue price agreed upon between EEC and PIF, which was determined based on the nominal value of the New Shares, as set out in Section 6-2 (Details of Debt Conversion Documents) hereof. After transferring a part of MOF Loan to PIF on the Effective Date, PIF shall be the related Creditor in connection with the debt conversion. Therefore, all New Shares shall be issued to PIF.

An application has been submitted to CMA for the securities' registration and offering and to the Exchange for the listing of the securities. The Directors acknowledge that all the statutory requirements necessary for the purpose of debt conversion have been met. In addition to the Extraordinary General Assembly's approval of the decision about the debt conversion, all approvals relating to the debt conversion were obtained from the CMA and the Exchange. This Circular should be read carefully in full, particularly Section (Important Notice) on page (i) and Section 2 (Risk Factors) hereof, before voting in the Extraordinary General Assembly meeting to approve or disapprove the debt conversion.

## Financial Advisor

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Saudi Fransi Capital



This Circular includes information provided as part of the application for registration and offer of securities in compliance with the Rules on the Offer of Securities and Continuing Obligations of the Capital Market Authority of the Kingdom of Saudi Arabia (the "Authority") and the application for listing of securities in compliance with the Listing Rules of the Saudi Stock Exchange. The directors, whose names appear on page (28), collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading. The Authority and the Saudi Stock Exchange do not take any responsibility for the contents of this circular, do not make any representation as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this circular. If the contents hereof cannot be understood, a licensed financial advisor should be consulted.

Moreover, all the Directors confirm that they have exercised due diligence, as they deem fit under the circumstances, and that the debt conversion promotes the interests of EEC and its Shareholders.

This Circular was issued on 22 Dhu al-Hijjah 1442H (corresponding to 01 August 2021G).



## Important Notice

EEC has prepared this Circular to provide information to its shareholders (referred to hereinafter as the "**Shareholders**"), so that they can make an informed decision when voting on EEC Board of Directors' recommendation to increase EEC's capital by converting the debt, through the issue of two hundred eighty-three million three hundred thirty-three thousand three hundred thirty-four (283,333,334) new ordinary shares with a nominal value of ten Saudi Riyals (SAR 10) per ordinary share to PIF. The issue price agreed upon between EEC and PIF was determined based on the nominal value of the New Shares.

EEC has submitted an application to the CMA for registration and offer of the New Shares, and to the Exchange for listing of the New Shares.

This Circular provides full details and information on the debt conversion. The votes of the shareholders voting on the debt conversion in the meeting of EEC's Extraordinary General Assembly to be held for this purpose shall be solely based on the information contained in this circular, electronic copies of which can be obtained by visiting EEC's website ([www.kaec.net](http://www.kaec.net)), the Financial Advisor's website ([www.sfc.sa](http://www.sfc.sa)), the CMA website ([www.cma.org.sa](http://www.cma.org.sa)), or the Exchange website ([www.tadawul.com.sa](http://www.tadawul.com.sa)). Neither the delivery of this Circular nor any oral, written or printed information related to the debt conversion is intended to be, nor should be construed as or relied upon in any way as a promise or representation as to future earnings, results or events.

The Financial Advisor and Legal Advisor mentioned on page (iv) have been engaged to assist in taking the actions necessary to complete the debt conversion. The information contained in this circular on the date of its issuance may be changed. In particular, EEC's financial position and the value of its shares may be adversely affected as a result of future developments, such as inflation or economic, political or other factors beyond its control (for further details, see Section 2 (**Risk Factors**)). Neither the delivery of this Circular nor any oral, written or printed information in relation to the debt conversion is intended to be, nor should be construed as or relied upon in any way as a promise or representation as to future earnings, results or events.

This Circular is not a recommendation by the Financial Advisor or other advisors to vote in favor of the debt conversion.

EEC does not intend to take any action to register this Circular or the New Shares proposed to be issued in any country other than KSA. It is expressly prohibited to distribute this Circular in any country other than KSA. All recipients of this Circular must familiarize themselves with all statutory restrictions relating hereto and to the issue of New Shares, and comply with the same. An application has been submitted to the CMA for registering and offering the New Shares, and to Tadawul to list the New Shares, provided that EEC Extraordinary General Assembly's approval is obtained for increasing EEC capital by converting the debt, as indicated in this circular.

In accordance with the Rules on the Offer of Securities and Continuing Obligations and the Listing Rules, EEC shall submit a Supplementary Shareholder Circular to the CMA if EEC becomes aware of the following at any time after the Shareholder Circular's date of publication and before the Extraordinary General Assembly meeting is held: (a) there has been a significant change in any material matters mentioned in this Circular, or (b) any significant issues have arisen that should have been included in this Circular. EEC does not intend to update or revise any information contained in this circular, except in the cases mentioned above, whether as a result of new information, future events or otherwise.

EEC's consolidated financial statements for the financial year ended December 31, 2018G (referred to hereinafter as the "**2018G Financial Statements**"), EEC's consolidated financial statements for the financial year ended December 31, 2019G (referred to hereinafter as the "**2019G Financial Statements**"), and EEC's consolidated financial statements for the financial year ended December 31, 2020G (referred to hereinafter as the "**2020G Financial Statements**") have been prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed in KSA, and other standards and publications adopted by the Saudi Organization for Certified Public Accountants (SOCPA). In addition, they have been audited by KPMG Al Fozan & Partners Certified Public Accountants and Auditors (referred to hereinafter as the "**Auditor**"). The 2018G, 2019G and 2020G financial statements are included in Annex (A) (**Consolidated Financial Statements and Auditor's Report**).

EEC's pro forma consolidated financial information for the financial year ended December 31, 2020 has been prepared by the Board under the applicable standards and in accordance with the requirements set forth in Annex Thirteen (13) of the Rules on the Offer of Securities and Continuing Obligations issued by the CMA. The Auditor has presented a reasonable assurance report [in accordance with International Standard on Assurance Engagements (ISAE) 3420] (Assurance Engagements for Reporting on the Compilation of Pro Forma Financial Information Included in a Prospectus, as adopted in the KSA) on the preparation of EEC's pro forma consolidated financial information for the financial year ended December 31, 2020G. EEC's pro forma consolidated financial information for the financial year ended December 31, 2020 has been included in Annex (B) (**Pro Forma Consolidated Financial Information**).

The financial and statistical information contained in this circular may be approximated. Accordingly, if the numbers mentioned in the tables are added, there may be a slight difference in the numbers mentioned in this circular compared to those mentioned in the financial statements.

For further clarification on the terms and abbreviations used in this circular, see Section 1 (**Definitions and Abbreviations Used in this Circular**) hereof.

The Shareholders' approval must be obtained for increasing the capital by debt conversion and the issue of New Shares under this Circular. A meeting of EEC's Extraordinary General Assembly was called to approve the issue of New Shares on 24 Muharram 1443H (corresponding to 1 September 2021G) The Shareholders should note that if their approval is not obtained to issue the New Shares constituting the subject matter hereof, they will not be issued, the debt conversion shall be suspended, and this Circular shall then be considered null and void. In such a case, the Shareholders shall be notified of the same via EEC's page on the Saudi Stock Exchange (Tadawul) website.

## Corporate Directory

EEC's Address	
<b>Emaar, The Economic City ("EEC")</b> Bay La Sun, Unit No. 1, Juman Street KAEC 23964-2522 Kingdom of Saudi Arabia Tel.: +966 12 5106872 Fax: +966 12 5106903 E-mail: SHA@kaec.net Website: www.kaec.net	 مدينة الملك عبدالله الاقتصادية
EEC's Representatives at the CMA	
<b>Name: Mohammad Nabil Mohammad Hassan Hefni</b> Title: Director Bay La Sun, Unit No. 1, Juman Street KAEC 23964-2522 Kingdom of Saudi Arabia Tel.: +966 12 6778880 Fax: +966 12 5106900 E-mail: SHA@kaec.net Website: www.kaec.net	<b>Name: Ahmed Yousef Mohamed Saeed Boshnak</b> Title: Managing Director Bay La Sun, Unit No. 1, Juman Street KAEC 23964-2522 Kingdom of Saudi Arabia Tel.: +966 12 5106688 Fax: +966 12 5106900 E-mail: SHA@kaec.net Website: www.kaec.net
The Stock Exchange	
<b>Saudi Stock Exchange (Tadawul)</b> King Fahad Road – Olaya 6798 PO Box 60612 Riyadh 11555 Kingdom of Saudi Arabia Tel.: +966 (11) 920001919 Fax: +966 (11) 218 9133 E-mail: csc@tadawul.com.sa Website: www.tadawul.com.sa	 تداول السعودية Saudi Exchange

## Advisors

Financial Advisor	
<p><b>Saudi Fransi Capital</b>  King Fahd Road  P.O. Box 23454, Riyadh 11426  Kingdom of Saudi Arabia  Tel.: +966 11 2826666  Fax: +966 11 2826823  E-mail: info@fransicapital.com.sa  Website: www.sfc.sa</p>	<p>السعودي الفرنسي كابيتال  <b>Saudi Fransi Capital</b></p> 
Legal Advisor	
<p><b>Law Office of Salman M. Al-Sudairi</b>  King Fahd Road  Tatweer Towers, Tower 1, 7th Floor  P.O. Box 17411 Riyadh, 11474  Kingdom of Saudi Arabia  Tel.: +966 11 2072500  Fax: +966 11 2072577  E-mail: info@alsudairilaw.com.sa  Website: www.alsudairilaw.com.sa</p>	<p>مكتب سلمان م. العبدري للمحاماة  <b>THE LAW OFFICE OF SALMAN M.AL-SUDAIRI</b></p>
Auditor	
<p><b>KPMG Al Fozan &amp; Partners Certified Public Accountants and Auditors</b>  KPMG Tower  Salah al-Din Road, Al-Malaz District  P.O. Box 92876 Riyadh 11663  Kingdom of Saudi Arabia  Tel.: +966 11 8748500  Fax: +966 11 8748600  E-mail: aalfozan@kpmg.com  Website: www.kpmg.com.sa</p>	

Note: The Financial advisor, Legal Advisor and Auditor referred to above have given and not withdrawn their written approval, until the date of this circular, to include their names, logos and statements in the form and content appearing herein. None of the Financial advisor, Legal Advisor and Auditor, their employees (forming part of the engagement team serving the Company), and the relatives of these employees has shares or interests of any kind in EEC or EEC's Subsidiaries in a manner which would impair their independence as at the date of this circular.

## Summary of the Circular

Company Name, Description and Incorporation	EEC is a Saudi public joint stock company established pursuant to Ministerial Resolution No. 609 dated 15/04/1427H (corresponding to 13/05/2006G), with initial Commercial Registration No. 4030164269 dated 08/09/1427H (corresponding to 26/09/2006G) issued in Jeddah, as amended with Commercial Registration No. 4602005884 dated 06/03/1436H (corresponding to 28/12/2014G) issued in Rabigh. EEC was listed on the Exchange on 14/09/1427H (corresponding to 07/10/2006G). The share capital of EEC is eight billion five hundred million Saudi Riyals (SAR 8,500,000,000), divided into eight hundred fifty million (850,000,000) ordinary shares with a fully paid nominal value of ten Saudi Riyals (SAR 10) per share.						
Brief of EEC's Activities as per its Bylaws	EEC operates in the mixed-use and other types of development of real estate, reclaimed lands and other lands in private or other economic areas, including infrastructure development. EEC operates in the promotion, marketing and sale of EEC-owned plots of land, providing development services or allowing third party possession, land lease, development of buildings and residential units, building for the benefit of third parties and development of economic zones, seaports and beaches. EEC establishes, develops, manages, operates and finances training institutes, schools, universities, hospitals, rehabilitation centers, cinemas, theaters and event halls; establishes, manages, operates and maintains malls, shopping centers, resorts, water parks, children's playgrounds, and recreational facilities of all kinds; establishes, manages, operates and maintains power, water, and water desalination stations, water canals; and executes well drilling works, and operates in road construction, sewers, and torrential rain and rain waterways. EEC imports all building materials, equipment, lighting poles, power generators and construction and building equipment, carries out contracting and construction works and various kinds of government and private projects, including afforestation and gardening, and operates in third party real estate marketing, brokerage and mediation.  EEC undertakes the development of King Abdullah Economic City (KAEC) on an area of 168,182,977 square meters near the Red Sea coast to the north of Jeddah. The KAEC project constitutes the establishment of a multi-purpose city of several main areas as follows: Seaport, industrial zone, central business district, resorts and residential areas.						
Substantial Shareholders and their ownership before and after debt conversion <sup>(4)</sup>	The table below shows EEC's Substantial Shareholders as at the date of this circular and their shareholding before and after the debt conversion:						
	Shareholder	Before Debt Conversion			After Debt Conversion		
		Number of Shares	Nominal Value (SAR)	Ownership (%)	Number of Shares	Nominal Value (SAR)	Ownership (%)
	Dayim Modern Real Estate Management Co.	142,710,570	1,427,105,700	16.78%	142,710,570	1,427,105,700	12.59%
	ME Royal Capital LLC	80,000,000	800,000,000	9.41%	80,000,000	800,000,000	7.06%
	Emaar Middle East LLC	50,000,000	500,000,000	5.88%	50,000,000	500,000,000	4.41%
	ME Strategic Investments LLC	50,000,000	500,000,000	5.88%	50,000,000	500,000,000	4.41%
	ME Holdings LLC	50,000,000	500,000,000	5.88%	50,000,000	500,000,000	4.41%
	ME Partners Co. LLC	46,000,000	460,000,000	5.41%	46,000,000	460,000,000	4.06%
<sup>(4)</sup> There is no indirect ownership for any of the Substantial Shareholders							
Public and Creditor Ownership before and after Debt Conversion	The table below shows the public and PIF (as the Creditor on the Effective Date) ownership before and after the debt conversion:						
	Shareholder	Before Debt Conversion			After Debt Conversion		
		Number of Shares	Nominal Value (SAR)	Ownership (%)	Number of Shares	Nominal Value (SAR)	Ownership (%)
	PIF	N/A	N/A	N/A	283,333,334	2,833,333,340	25.00%
	Public	431,289,430	4,312,894,300	50.74%	431,289,430	4,312,894,300	38.05%
<sup>(4)</sup> Figures are rounded.							
EEC's Capital	Eight billion five hundred million Saudi Riyals (SAR 8,500,000,000).						
EEC's Total Shares	Eight hundred fifty million (850,000,000) ordinary shares paid in full.						
Share's Nominal Value	Ten Saudi Riyals (SAR 10).						
Total New Shares	Two hundred eighty-three million three hundred thirty-three thousand three hundred thirty-four (283,333,334) new ordinary shares.						

Ratio of New Shares to EEC's Capital	The New Shares constitute 25% of EEC's capital after the increase.		
Issue Price	The issue price was determined based on the nominal value of the New Shares, which is ten Saudi Riyals (SAR 10).		
Total Issue Value	Two billion eight hundred thirty-three million three hundred thirty-three thousand three hundred forty Saudi Riyals (SAR 2,833,333,340).		
Debt Conversion	<p>The increase of EEC's capital by converting EEC debt owed to PIF (as the Creditor on the Effective Date) under the Subscription and Debt Conversion Agreement and issuing two hundred eighty-three million three hundred thirty-three thousand three hundred thirty-four (283,333,334) new ordinary shares to PIF at the issue price determined based on the nominal value of New Shares, i.e., ten Saudi Riyals (SAR 10) per share. This conversion aims to settle part of the MOF Loan amounting to two billion eight hundred thirty-three million three hundred thirty-three thousand three hundred forty Saudi Riyals (SAR 2,833,333,340) by granting PIF ownership of these New Shares. Part of the MOF Loan will be transferred to PIF automatically and concurrently with EEC Extraordinary General Assembly's approval of the debt conversion. As such, PIF will be the Relevant Creditor in connection with the debt conversion, and all the New Shares will be issued to PIF and will be deposited in PIF's portfolio within five (5) business days prior to the Completion Date as stipulated in the Subscription and Debt Conversion Agreement.</p> <p>Subject to completion of the debt conversion, the remaining payments owed by EEC to MOF will be rescheduled and the release of part of the lands mortgaged by MOF will be considered as per MOF's Conditional Approval for Rescheduling after EEC submits its new business plan to the MOF. It is worth noting that EEC is contracting a consulting firm to assist in developing the new business plan. (For further details about the debt conversion, see Section 6-2 <b>(Details of Debt Conversion Documents)</b> hereof).</p>		
Key details of the debt conversion transaction	<p>On 07/11/1442H (corresponding to 17/06/2021G), EEC obtained the MOF conditional approval on postponing the first payment of the MOF loan, as the commissions for 2019G, 2020G, and 2021G, totaling three hundred sixty three million nine hundred sixty four thousand and five-hundred Saudi Riyals (SAR 363,964,500) will be capitalized and added to the MOF loan value which amounts to five (5) billion Saudi Riyals, making the total loan five billion three hundred sixty three million nine hundred sixty four thousand and five hundred Saudi Riyals (SAR 5,363,964,500). The MOF total loan will be rescheduled after capitalizing the above bank commissions so that the first maturity date of the first installment will be in June 2024G, and equal payments for six years , at seven hundred sixty million six hundred sixty thousand seven hundred and fifty Saudi Riyals (SAR 760,660,750) per payment, except the last payment which will end in June 2030G and amounts to eight hundred million Saudi Riyals (SAR 800,000,000). In the event of completion of the debt conversion transaction, the due rescheduled amount to be paid will be two billion five hundred thirty million six hundred thirty-one thousand one hundred sixty SAR (2,530,631,160) with the first maturity date in June 2024, and for a period of six years ending in June 2030. Concerning the mortgaged lands, the MOF conditional approval on the rescheduling provided that removal of mortgage can be considered, after EEC submits its new business plan to the MOF. It is worth noting that EEC is contracting a consulting firm to assist in developing the new business plan. The table below shows in detail the rescheduling mechanism of MOF loan:</p>		
	Maturity Date	Payments in the event of failure of completion of the debt conversion (SAR)	Payments in the event of completion of the debt conversion (SAR)
	24/11/1445H. (corresponding to 01/06/2024G).	760,660,750	361,500,000
	05/12/1446H. (corresponding to 01/06/2025G).	760,660,750	361,500,000
	15/12/1447H. (corresponding to 01/06/2026G).	760,660,750	361,500,000
	26/12/1448H. (corresponding to 01/06/2027G).	760,660,750	361,500,000
	08/01/1450H. (corresponding to 01/06/2028G).	760,660,750	361,500,000
	19/01/1451H. (corresponding to 01/06/2029G).	760,660,750	361,500,000
	29/01/1452H. (corresponding to 01/06/2030G).	800,000,000	361,631,160
	Total amount	5,363,964,500	2,530,631,160
For further details about the debt conversion, please refer to Section (6-2) <b>"Details of Debt Conversion Documents"</b> hereof).			



<b>Debt Conversion Structure</b>	EEC and the Substantial Shareholders entered into the Subscription and Debt Conversion Agreement with PIF (conditional on EEC Extraordinary General Assembly 's approval). Under this agreement, EEC's capital will be increased by converting the debt to New Shares. The nominal value of these New Shares shall be ten Saudi Riyals (SAR 10) per share, and PIF shall be granted all New Shares against the settlement of part of the MOF Loan owed by EEC (which will be transferred from MOF to PIF automatically and concurrently with the approval of EEC's Extraordinary General Assembly for the debt conversion), noting that the issue price was determined based on the nominal value of the New Shares. The completion of the debt conversion and allocation of New Shares to PIF pursuant to this agreement will constitute the final clearance and settlement between EEC and PIF in respect of the concerned part of MOF Loan. As such, EEC will be held harmless in case of any relevant future claims regarding this part of MOF Loan (for further details about the debt conversion, see Section 6-2 ( <b>Details of Debt Conversion Documents</b> ) hereof).
<b>Objective of Debt Conversion</b>	To improve EEC's liquidity and credit position in order to provide greater solvency in relation to its financial obligations, and to improve EEC's ability to achieve its growth goals (for further details about the reasons for the debt conversion, see Section 3-1 ( <b>Reasons for Debt Conversion and Implications for EEC</b> ) hereof).
<b>Related Parties</b>	The debt conversion does not involve transactions with any Related Parties.
<b>Basic Steps for Completion of Debt Conversion</b>	<ul style="list-style-type: none"> <li>■ To fulfill the conditions of the Subscription and Debt Conversion Agreement (for further details about the Subscription and Debt Conversion Agreement, see Section 6-2 (<b>Details of Debt Conversion Documents</b>) hereof).</li> <li>■ To obtain the approval of the CMA and Ministry of Commerce by calling to hold a meeting for EEC's Extraordinary General Assembly.</li> <li>■ To take the votes of EEC Shareholders, based on the Board of Directors' recommendation, at EEC Extraordinary General Assembly meeting on increasing EEC's capital by converting the debt and issuing New Shares against the partial settlement of the MOF Loan owed by EEC (to be transferred from MOF to PIF automatically and concurrently with EEC Extraordinary General Assembly's approval for the debt conversion) and to approve the amendment of the capital articles in EEC's Bylaws.</li> <li>■ To issue and register EEC's New Shares in PIF's name and list them on the Exchange.</li> <li>■ To amend EEC's Bylaws and Commercial Registration</li> <li>■ To fulfill any other regulatory requirements, if any.</li> </ul> <p>The Shareholders should read this Circular in full carefully and pay special attention to Section (<b>Important Notice</b>) and Section 2 (<b>Risk Factors</b>) before making their decision on voting for or against EEC's capital increase by converting the debt.</p>
<b>Shareholders' Rights to Dividends</b>	The New Shares provide the same rights as the existing shares, including the right to receive dividends which are due after, not before, the New Shares are issued in accordance with the Companies Law and EEC's Bylaws.
<b>Approvals Required for Capital Increase</b>	<ul style="list-style-type: none"> <li>■ The approval of the CMA and Ministry of Commerce for the call to convene EEC Extraordinary General Assembly.</li> <li>■ The EEC Extraordinary General Assembly's approval of the debt conversion.</li> <li>■ The Economic Cities and Special Zones Authority ("ECA")'s approval of the debt conversion.</li> <li>■ The CMA's approval of the application for registering and offering the securities.</li> <li>■ The Exchange's conditional approval of the application to list the shares submitted in accordance with the Listing Rules.</li> <li>■ The fulfillment of other regulatory requirements, if any.</li> </ul>
<b>Voting Rights for New Shares</b>	Each New Share has the same voting rights as the other existing shares.
<b>Restrictions on the New Shares</b>	There are no restrictions whatsoever on the New Shares.

This summary of the Circular provides a short background of the information contained in this circular and does not provide all the details that may be important for current shareholders to get acquainted with. Moreover, this summary should be carefully read as an introduction to this Circular. The current shareholders should read and review this Circular in full and make their decision on approving the debt conversion and issuance of New Shares after understanding this Circular as a whole. The Shareholders should pay a special attention to Section (**Important Notice**) and Section 2 (**Risk Factors**) before making their decision on voting for or against increasing EEC capital by converting the debt.

The Shareholders' approval must be obtained to increase the capital by issuing New Shares to convert the debt under this Circular. A meeting of EEC's Extraordinary General Assembly was called to approve the issue of New Shares on 24 Muharram 1443H (corresponding to 1 September 2021G). The Shareholders should note that if their approval is not obtained to issue the New Shares constituting the subject matter hereof, they will not be issued, the debt conversion shall be suspended, and this Circular shall then be considered null and void. In such a case, the Shareholders shall be notified of the same via EEC's page on the Saudi Stock Exchange (Tadawul) website.

## Debt Conversion Key Dates and Milestones

Proposed Duration for Debt Conversion	
Event	Date
<b>(1) Required procedures related to the Extraordinary General Assembly meeting held to vote on increasing the Company's capital through debt conversion</b>	
Obtain the approval of the CMA and Ministry of Commerce for the call to convene EEC's Extraordinary General Assembly.	24 Muharram 1443H (corresponding to 1 September 2021G).
Invite EEC's Extraordinary General Assembly to meet to vote on increasing EEC's capital through debt conversion (provided that the second meeting of the Assembly will be convened one hour after the time set for the first meeting ends if the quorum is not satisfied), and to publish the invitation via the Saudi Stock Exchange website.	24 Muharram 1443H (corresponding to 1 September 2021G).
Publish the Shareholder Circular.	25 Muharram 1443H (corresponding to 2 September 2021G).
Make the relevant documents available for inspection.	From 9:00 am to 4:00 pm, starting from 28/01/1443H (corresponding to 05/09/2021G) to 19/02/1443H (corresponding to 26/09/2021G).
Allow a period of time during which EEC's Shareholders can vote on the debt conversion using modern technological means.	From 10:00 am on 15/02/1443H (corresponding to 22/09/2021G) to 4:00 pm on 19/02/1443H (corresponding to 26/09/2021G).
Convene EEC's Extraordinary General Assembly meeting.	19/02/1443H (corresponding to 26/09/2021G).
Announce the results of EEC's Extraordinary General Assembly meeting or failure to convene the meeting (in case that the quorum is not satisfied).	20/02/1443H (corresponding to 27/09/2021G).
<b>(2) Procedures required to be adopted in case that the quorum is not met for the first Extraordinary General Assembly meeting to vote on EEC's capital increase through debt conversion</b>	
Convene the second meeting of the Extraordinary General Assembly (the quorum will be deemed satisfied in case the Shareholders present represent at least 25% of EEC's capital).	One hour after the end of the time set for the first meeting if the quorum in the first meeting is not satisfied.
Publish the decisions taken during the second Extraordinary General Assembly meeting by EEC.	20/02/1443H (corresponding to 27/09/2021G).
<b>(3) Procedures required to be adopted in case that the quorum is not met for the second Extraordinary General Assembly meeting to vote on EEC's capital increase through debt conversion</b>	
Obtain the CMA and Ministry of Commerce approval to convene the third meeting of EEC's Extraordinary General Assembly (in case that the quorum in the first and second meetings is not satisfied)	22/02/1443H (corresponding to 29/09/2021G).
Call to convene a third meeting of EEC's Extraordinary General Assembly (in case that the quorum in the first and second meetings is not satisfied).	23/02/1443H (corresponding to 30/09/2021G).
Convene the third meeting of EEC's Extraordinary General Assembly (the third meeting shall be deemed valid regardless of the number of shares represented therein).	15/03/1443H (corresponding to 21/10/2021G).
Publish of the results of the third EEC Extraordinary General Assembly meeting by EEC .	18/03/1443H (corresponding to 24/10/2021G).
<b>(4) Procedures required to be adopted in case of the Extraordinary General Assembly's disapproval of EEC's capital increase through debt conversion</b>	
In case of the Extraordinary General Assembly's disapproval of EEC's capital increase through debt conversion, the Board of Directors may call for another meeting of the Extraordinary General Assembly within six (6) months from the date of CMA's approval of the application to increase EEC's capital through debt conversion.	In case that the approval of the Extraordinary General Assembly on EEC's capital increase through debt conversion is not obtained before 01/07/1443H (corresponding to 02/02/2022G), the CMA approval shall be deemed void.

Proposed Duration for Debt Conversion	
Event	Date
<b>(5) Procedures required to be adopted in case of the Extraordinary General Assembly's approval of EEC's capital increase through debt conversion</b>	
Provide the CMA with a copy of the Extraordinary General Assembly meeting minutes	Within ten (10) days of the date of the Extraordinary General Assembly's approval of EEC's capital increase through debt conversion.
Publish any amendments of the Bylaws via the portal of the Ministry of Commerce before amending the Bylaws officially with the Ministry of Commerce	Within one week of the date of the Extraordinary General Assembly's approval of EEC's capital increase through debt conversion.
Issue and register EEC's New Shares and list them on the Exchange	EEC's New Shares will be issued and registered within one week as of the date of the Extraordinary General Assembly's approval for EEC's capital increase through debt conversion.
Amend EEC's Bylaws and Commercial Registration	Within three (3) weeks of the date of the Extraordinary General Assembly's approval of EEC's capital increase through debt conversion.

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## 1. Definitions and Abbreviations Used in this Circular

<b>Subscription and Debt Conversion Agreement</b>	The agreement concluded by EEC and a number of its Substantial Shareholders with PIF on 12/01/1442H (corresponding to 31/08/2020G), pursuant to which the debt will be converted into New Shares in EEC.
<b>Loan Transfer Agreement</b>	The Partial Transfer Agreement concluded between MOF and PIF on 07/08/1442H (corresponding to 20/03/2021G) for the purpose of transferring part of MOF loan to PIF in the amount of two billion eight hundred thirty-three million three hundred thirty-three thousand three hundred forty Saudi Riyals (SAR 2,833,333,340) from the last payments that are payable to MOF under loan agreement that is totaling five billion Saudi Riyals (SAR 5,000,000,000) subject to annual commission as per prevailing commercial rates and are still outstanding and unpaid by EEC under the Loan Agreement. Execution of this agreement is a prerequisite for completion of debt conversion under Subscription and Debt Conversion Agreement.
<b>Loan Agreement</b>	The loan agreement concluded between MOF and EEC on 20/06/1432H (corresponding to 23/5/2011G), as amended on 02/12/1436H (corresponding to 15/9/2015G), under which the MOF extended a loan to EEC in the amount of five billion Saudi Riyals (SAR 5,000,000,000) subject to an annual commission as per the prevailing commercial rates, to develop King Abdullah Economic City (KAEC), located at Rabigh Governorate, KSA.
<b>Shares</b>	Eight hundred fifty million (850,000,000) ordinary shares, with a fully paid-up nominal value of ten Saudi Riyals (SAR 10) per share.
<b>New Shares</b>	Two hundred eighty-three million three hundred thirty-three thousand three hundred thirty-four (283,333,334) ordinary shares to be issued under a capital increase through debt conversion.
<b>Completion Date</b>	The date of completion of the Subscription and Debt Conversion Agreement, upon fulfillment of the completion obligations thereunder.
<b>Shareholder Circular or the Circular</b>	This Shareholder Circular prepared by EEC in relation to the capital increase through debt conversion.
<b>General Assembly</b>	The General Assembly of EEC, which consists of EEC's Shareholders.
<b>Ordinary General Assembly</b>	EEC Shareholders' Ordinary General Assembly
<b>Extraordinary General Assembly</b>	EEC Shareholders' Extraordinary General Assembly in which the vote on the debt conversion will be held.
<b>Government</b>	Government of KSA
<b>Debt</b>	Part of the financial liabilities owed by EEC to MOF in the amount of two billion eight hundred thirty-three million three hundred thirty-three thousand three hundred forty Saudi Riyals (SAR 2,833,333,340), which will be converted into PIF shares in EEC through debt conversion. Part of MOF loan will be transferred to PIF automatically and concurrently with EEC Extraordinary General Assembly's approval of the debt conversion. As such, PIF will be the Relevant Creditor in connection with the debt conversion, and all New Shares will be issued to it.
<b>Saudi Arabian Riyal (SAR)</b>	The official currency of the Kingdom.
<b>Chairman or Chairman of the Board of Directors</b>	Chairman of EEC's Board of Directors.
<b>Capital Increase</b>	The increase of EEC's capital from eight billion five hundred million Saudi Riyals (SAR 8,500,000,000) to eleven billion three hundred thirty-three million three hundred thirty-three thousand three hundred forty Saudi Riyals (SAR 11,333,333,340) through the issue of New Shares.
<b>Exchange or Tadawul</b>	Saudi Stock Exchange (Tadawul)
<b>Issue Price</b>	The issue price of the New Shares determined under the Subscription and Debt Conversion Agreement based on the nominal value of the New Shares, which is ten Saudi Riyals (SAR 10) per share.
<b>Company or EEC</b>	Emaar, The Economic City, a Saudi public joint stock company established pursuant to Ministerial Resolution No. 609 dated 15/04/1427H (corresponding to 13/05/2006G), with initial Commercial Registration No. 4030164269 dated 08/09/1427H (corresponding to 26/09/2006G) issued in Jeddah, as amended with Commercial Registration No. 4602005884 dated 06/03/1436H (corresponding to 28/12/2014G) issued in Rabigh.
<b>Saudi Stock Exchange (Tadawul)</b>	Saudi Stock Exchange (Tadawul) "Saudi Stock Exchange" is a subsidiary of Saudi Tadawul Group.
<b>King Abdullah Economic City or KAEC</b>	A new Saudi economic city established in 2005G in Rabigh, Makkah Province, for which EEC acts as the developer.

<b>Subsidiaries</b>	<p>EEC holds seven (7) subsidiaries, including:</p> <ol style="list-style-type: none"> <li>1- Ports Development Company (PDC), a closed joint stock company established and existing under Commercial Registration No. 4602002009 with a capital of five billion two hundred ten million Saudi Riyals (SAR 5,210,000,000), in which EEC holds a 50% direct interest.</li> <li>2- Economic Cities Investments Holding Company (ECIHC), a limited liability company established and existing under Commercial Registration No. 4602003130 with a capital of five hundred thousand Saudi Riyals (SAR 500,000), which is 100% directly owned by EEC.</li> <li>3- Industrial Zones Development Company Limited (IZDCL), a limited liability company established and existing under Commercial Registration No. 4602211995 with a capital of five hundred thousand Saudi Riyals (SAR 500,000), which is 2% directly owned by EEC and 98% owned by Economic Cities Investments Holding Company (ECIHC) (i.e., 100% directly and indirectly owned by EEC).</li> <li>4- Economic Cities Real Estate Operation and Management Company Limited (REOM), a limited liability company established and existing under Commercial Registration No. 4602004968 with a capital of five hundred thousand Saudi Riyals (SAR 500,000), which is 2% directly owned by EEC and 98% owned by Economic Cities Investments Holding Company (ECIHC) (i.e., 100% directly and indirectly owned by EEC).</li> <li>5- Economic Cities Pioneer Real Estate Management Company Limited (REM), a limited liability company established and existing under Commercial Registration No. 4602004970 with a capital of five hundred thousand Saudi Riyals (SAR 500,000), which is 2% directly owned by EEC and 98% owned by Economic Cities Investments Holding Company (ECIHC) (i.e., 100% directly and indirectly owned by EEC).</li> <li>6- Economic Cities Real Estate Development Company Limited (RED), a limited liability company established and existing under Commercial Registration No. 4602004969 with a capital of five hundred thousand Saudi Riyals (SAR 500,000), which is 2% directly owned by EEC and 98% owned by Economic Cities Investments Holding Company (ECIHC) (i.e., 100% directly and indirectly owned by EEC).</li> <li>7- Emaar Knowledge Company Limited (EKC), a limited liability company established and existing under Commercial Registration No. 4602006620 with a capital of ten million Saudi Riyals (SAR 10,000,000), which is 96% directly owned by EEC, 1% owned by Economic Cities Investments Holding Company (ECIHC), 1% owned by Economic Cities Real Estate Operation and Management Company Limited (REOM), 1% owned by Economic Cities Pioneer Real Estate Management Company Limited (REM), and 1% owned by Economic Cities Real Estate Development Company Limited (RED) (i.e., 100% directly and indirectly owned by EEC).</li> </ol> <p>The above list of subsidiaries applies to the term "Subsidiary" as defined in the Glossary of Defined Terms Used in the Regulations &amp; Rules of the Capital Market Authority, pursuant to which a subsidiary means any other company controlled by that company by holding 30% of the voting rights or appointment rights in the other company. The aforementioned definition differs from the definition used for the purpose of preparing consolidated financial statements in accordance with IFRS as endorsed by SOCPA, whereby a subsidiary is defined as any other company in which EEC holds a 50% shareholding interest.</p> <p>For the purposes of the Subscription and Debt Conversion Agreement, the definition of a Subsidiary includes Albiotat Almtatorah Real Estate Investment Company, in which EEC holds 20% of the capital directly, due to EEC, Substantial Shareholders and PIF all agreeing include Albiotat Almtatorah Real Estate Investment Company in the definition of a Subsidiary for the purpose of inclusion in the same relevant warranties and representations, provided by the Company and Substantial Shareholder, that apply to the financial position of the other subsidiaries (which fall under the above definition of a "Subsidiary").</p>
<b>PIF</b>	<p>The Public Investment Fund, a government fund based in Riyadh, KSA, established in 1391H (corresponding to 1971G) pursuant to Royal Decree No. M/24, for which the Public Investment Fund Law was issued by Royal Decree No. (M/92) dated 12/08/1440H (corresponding to 17/04/2019G). PIF aims to generate returns by investing its funds, whether in cash or in-kind, in accordance with the highest standards, for the purpose of serving public interest, promoting economic development in the Kingdom and diversifying its sources of income, and maintaining the interest of future generations.</p>



<b>Related Party</b>	<p>The term "Related Party" or "Related Parties" in this Circular and in accordance with the Glossary of Defined Terms Used in the Regulations &amp; Rules of the Capital Market Authority includes:</p> <ul style="list-style-type: none"> <li>(a) Affiliates of EEC.</li> <li>(b) Substantial Shareholders of EEC.</li> <li>(c) Directors and senior executives of EEC.</li> <li>(d) Directors and senior executives of affiliates of EEC.</li> <li>(e) Directors and senior executives of Substantial Shareholders of EEC.</li> <li>(f) Any relatives of persons described at (a), (b), (c), (d), and (e) above.</li> <li>(g) Any company controlled by any person described at (a), (b), (c), (d), (e) and (f) above.</li> </ul> <p>For the purpose of Paragraph (g), "control" shall refer to the ability to, directly or indirectly, influence the acts or decisions of another person, individually or collectively with a relative or affiliate, through any of the following: (a) holding 30% or more of the voting rights in a company; and (b) having the right to appoint 30% or more of the members of the administrative staff; and the word "controlling" shall be construed accordingly.</p>
<b>Director</b>	A member of EEC's Board of Directors.
<b>Debt Conversion</b>	The increase of EEC's capital from eight billion five hundred million Saudi Riyals (SAR 8,500,000,000), divided into eight hundred fifty million (850,000,000) ordinary shares, to eleven billion three hundred thirty-three million three hundred thirty-three thousand three hundred forty Saudi Riyals (SAR 11,333,333,340), divided into one billion one hundred thirty-three million three hundred thirty-three thousand three hundred thirty-four (1,133,333,334) ordinary shares, by issuing two hundred eighty-three million three hundred thirty-three thousand three hundred thirty-four (283,333,334) new ordinary shares, with a total value of two billion eight hundred thirty-three million three hundred thirty-three thousand three hundred forty Saudi Riyals (SAR 2,833,333,340) and a nominal value of ten Saudi Riyals (SAR 10) per share, to PIF in exchange for converting the debt that will be owed by EEC to PIF (as the Creditor on the Effective Date) in the amount of two billion eight hundred thirty-three million three hundred thirty-three thousand three hundred forty Saudi Riyals (SAR 2,833,333,340).
<b>Debt Conversion Documents</b>	All documents related to the Debt Conversion, including the Loan Agreement, Loan Transfer Agreement, Subscription and Debt Conversion Agreement, and any amendments made to these documents, as well as any other documents that EEC's Board of Directors considers to be relevant to the Debt Conversion.
<b>MOF Loan</b>	The loan provided by MOF to EEC under the Loan Agreement concluded between MOF and EEC on 20/06/1432H (corresponding to 23/05/2011G), as amended on 02/12/1436H (corresponding to 15/09/2015G).
<b>Mortgaged Lands</b>	The lands owned by EEC with an area of twenty-four million seven hundred twenty-four thousand four hundred twenty-three (24,724,423) square meters, comprising Plots Nos. 2, 3, 4, 5, 6 and 7 as set out in Deeds Nos. 2, 3, 4, 5, 6 and 7 dated 24/12/1431H (corresponding to 30/11/2010G), which are mortgaged to MOF under the Loan Agreement as collateral to secure the entire loan amount.
<b>MOF Conditional Approval for Rescheduling</b>	MOF approval for rescheduling of MOF Loan, based on the request submitted by EEC, such that the loan is payable in seven (7) annual installments as of 24/11/1445H (corresponding to 01/06/2024G), with an accrued commission paid annually until 29/01/1452H (corresponding to 01/06/2030G), provided that debt conversion is completed and an amendment to the Loan Agreement between MOF and EEC is concluded.
<b>2018G Financial Statements</b>	Consolidated audit financial statements of EEC for the year ended December 31, 2018G.
<b>2019G Financial Statements</b>	Consolidated audit financial statements of EEC for the year ended December 31, 2019G.
<b>2020G Financial Statements</b>	Consolidated audit financial statements of EEC for the year ended December 31, 2020G.
<b>Pro Forma Financial Information</b>	Pro forma consolidated financial information of EEC for the year ended December 31, 2020G. The pro forma consolidated financial information shows that the debt conversion transaction has been completed on January 1, 2020G.
<b>Listing Rules</b>	Listing Rules approved by CMA Board Resolution No. 3-123-2017 dated 09/04/1439H (corresponding to 27/12/2017G), as amended by CMA Board Resolution No. 1-22-2021 dated 12/07/1442H (corresponding to 24/02/2021G).
<b>ROSCOs, or Rules on the Offer of Securities and Continuing Obligations</b>	The Rules on the Offer of Securities and Continuing Obligations issued by the CMA Board pursuant to Resolution No. 3-123-2017 dated 09/04/1439H (corresponding to 27/12/2017G) as amended by the CMA Board's Resolution No. 1-07-2021 dated 01/06/1442H (corresponding to 14/01/2021G).
<b>Share's Nominal Value</b>	Ten Saudi Riyals (SAR 10) per ordinary share.
<b>Corporate Governance Regulations</b>	The Corporate Governance Regulations issued by CMA Board Resolution No. 8-16-2017 dated 16/05/1438H (corresponding to 13/2/2017G), as amended pursuant to CMA Board Resolution No. 3-57-2019 dated 15/09/1440H (corresponding to 20/5/2019G).

<b>Committees</b>	Audit Committee, Nomination and Remuneration Committee, and Executive Committee.
<b>Glossary of Defined Terms Used in the Regulations and Rules of the Capital Market Authority</b>	The Glossary of Defined Terms Used in the Regulations and Rules of the Capital Market Authority issued by CMA Board under Resolution No. 4-11-2004 dated 20/08/1425H (corresponding to 4/10/2004G), as amended by CMA Board's Resolution No. 2-22-2021 dated 12/07/1442H (corresponding to 24/2/2021G).
<b>Transferred Amount</b>	Part of the MOF Loan to PIF in the amount of two billion eight hundred thirty-three million three hundred thirty-three thousand three hundred forty Saudi Riyals (SAR 2,833,333,340) from the last payments due to MOF under the Loan Agreement, which will be transferred by MOF to PIF under the Loan Transfer Agreement.
<b>Board of Directors or Board</b>	Company's Board of Directors
<b>Group</b>	EEC and its Subsidiaries.
<b>Auditor</b>	KPMG Al Fozan & Partners Certified Public Accountants and Auditors
<b>Substantial Shareholder</b>	Any person who owns 5% or more of EEC's shares.
<b>Shareholders</b>	Shareholders of EEC.
<b>Substantial Shareholders</b>	Dayim Modern Real Estate Management Co. ME Royal Capital LLC ME Partners Co. LLC ME Strategic Investments LLC ME Holdings LLC Emaar Middle East LLC
<b>Legal Advisor</b>	Law Office of Salman M. Al-Sudairi
<b>Financial Advisor</b>	Saudi Fransi Capital
<b>Kingdom</b>	The Kingdom of Saudi Arabia
<b>Bylaws</b>	EEC's Bylaws
<b>Companies Law</b>	The Companies Law promulgated by Royal Decree No. M/3 dated 28/01/1437H (corresponding to 10/11/2015G) as amended.
<b>Authority or CMA</b>	Saudi Capital Market Authority.
<b>Ministry of Commerce</b>	Saudi Ministry of Commerce.
<b>Business Day</b>	Any day except for Friday and Saturday and public holidays.

## 2. Risk Factors

Existing Shareholders should consider the following risk factors related to the increase of EEC's capital through debt conversion and issuance of New Shares, together with all the information set out in this Circular, and reach their own conclusions prior to voting on the debt conversion in the Extraordinary General Assembly.

The Board of Directors currently believes that the risks and uncertainties described below are all risks related to debt conversion and issuance of New Shares. However, these risks and uncertainties do not necessarily include all risks and there may be further risks and uncertainties related to debt conversion and the issue of New Shares that are currently unknown to EEC, or currently considered by the Board of Directors to be immaterial. In addition, there are further risks and uncertainties related to debt conversion and the issue of New Shares to which EEC is exposed. Materialization of any of these risks or uncertainties may adversely affect EEC's activity, financial position, results of operations and prospects. As a result, the price of the shares may decline, EEC's ability to pay dividends could be impaired and/or Shareholders may lose all or part of their investments.

The Directors confirm that, to the best of their knowledge and belief and based on the information available to them as at the date of this Circular, there are no material risks undisclosed below that may affect the decision of the existing shareholders to vote on the debt conversion and the issuance of New Shares.

The risks stated below are not arranged in order of importance or expected impact on EEC and/or the share price.

### 2-1 Commercial Risks

#### 2-1-1 Risks Related to Insufficient Cash Flows, Inability to Obtain Necessary Loans and Financing, or Inability to Distribute Future Dividends

EEC is in need of large capital expenditures to further invest in the development of real estate and land, expand its operations, and make continuous maintenance and improvement of its properties located in King Abdullah Economic City in compliance with the relevant regulatory requirements or new standards approved by the Management, or for the purpose of addressing unexpired liabilities and obligations.

There is no assurance that the debt conversion will contribute to the adequacy of the cash flows generated from EEC's existing operations and long-term capital investments, EEC's ability to distribute any future dividends, or EEC's ability to obtain bank loans and other external financing needed to finance EEC's existing operations and long-term capital investments in a timely manner, at reasonable costs, and on favorable terms. The total value of EEC's loans amounted to (SAR 8,574,344) as at December 31, 2020G, the ratio of the debt to be converted to total equity as at December 31, 2020G reached 48.5%, and the ratio of loans to equity prior to debt conversion is 146.9%, and will reach 66.2% post debt conversion. In the event that EEC is unable to obtain the necessary loans and financing or EEC's cash flow is insufficient, this will have an adverse impact on EEC's business, financial position, results of operations, and prospects.

#### 2-1-2 Risks Related to EEC's financing Commitments

EEC announced on 27/01/1442H. (corresponding to 15/09/2020G) that it has entered into an agreement rescheduling Murabaha financing of SAR 1.7 billion with Alinma bank and revising the terms of the Murabaha financing. The amended terms of the Murabaha financing, includes financing of eight-hundred million Saudi Riyals (SAR 800,000,000) and financing of nine-hundred million Saudi Riyals (SAR 900,000,000) with a grace period of 3 years and a repayment over (7) years and half in semi-annual instalments. EEC, also, announced on 03/12/1442H. (corresponding to 13/07/2021G) that it has entered into a rescheduling agreement with Banque Saudi Fransi and revising the terms of the facility. The amended terms of the facility amounting to SAR 537.5 million, include a grace period of 3 years and a repayment over (7) years (from 2023 to 2029 both years inclusive) in semi-annual instalments. In addition to interest rate hedging facility of SAR 50 million.

EEC concluded facilities agreement dated 05/07/1438H (corresponding to 02/04/2017G) with the Saudi British Bank, which was renewed on 07/05/1439H (corresponding to 24/01/2018G), under which the Saudi British Bank provided facilities to EEC totaling two billion Saudi Riyals (SAR 2,000,000,000). Under that agreement, the facilities sum is to be repaid in full after seven (7) years from the earlier of: (a) the date of first withdrawal; or (b) on 27/05/1443H (corresponding to 31/12/2021G), noting that the first sum withdrawn from such facilities took place in 2014G and it equaled the outstanding sum that has not been paid until the date of this Circular, being nine hundred seventy six million two hundred and fifty thousand Saudi Riyals (SAR 976,250,000). EEC is currently working on rescheduling the outstanding amount of the facilities it owes to the Saudi British Bank. If the rescheduling of this loan is not approved with the required structure or results in new unexpected or difficult conditions, EEC may not be able to obtain the necessary loans and financing, or EEC's cash flow may be insufficient to continuously or ideally continue EEC's activities, which will have an adverse impact on EEC's business, financial position, results of operations, and prospects.

### 2-1-3 Risks Related to Failure to Complete Debt Conversion

In addition to the approvals necessary for the capital increase, the completion of debt conversion requires transferring part of the loan owed by EEC to MOF which will grant it then to PIF (as the Creditor on the Effective Date) under the Loan Transfer Agreement between MOF and PIF. Although EEC approval of the loan transfer as required under the Loan Transfer Agreement concluded between the MOF and the PIF was obtained, since EEC is not a party to the Loan Transfer Agreement between MOF and PIF, accordingly, in the event that either party violates or terminates this agreement and does not complete the Loan Transfer Agreement prior to or after EEC Extraordinary General Assembly approval of the debt conversion, EEC may not have recourse against either PIF or MOF regarding completion of the Loan Transfer Agreement, which is a prerequisite for completing the Subscription and Debt Conversion Agreement. Therefore, this will have an adverse impact on EEC's business, financial position, results of operations, and prospects.

### 2-1-4 Risks Related to Failure to Meet Strategic Growth Objectives

EEC periodically assesses potential expansion and growth opportunities, such as the expansion of real estate development projects, which requires effective executive management and large capital expenditures, in addition to recruiting employees and workers with the required level of expertise and technical skill. There is no guarantee that the debt conversion will contribute to EEC's ability to realize its strategic growth objectives. In the event that EEC is unable to achieve its strategic growth objectives, this will have an adverse impact on EEC's business, financial position, results of operations and prospects.

Moreover, following the debt conversion, PIF will become a Substantial Shareholders in EEC and will hold 25% of EEC's capital. Furthermore, pursuant to the Subscription and Debt Conversion Agreement concluded between EEC and a number of its Substantial Shareholders and PIF on 12/01/1442H (corresponding to 31/08/2020G), PIF has the right to nominate three (3) Directors. Consequently, PIF will be able to influence EEC's strategic decisions and change its strategy, and there is no assurance that any change in EEC's strategy will be in its interest and will achieve positive results, which will have an adverse impact on EEC's business, financial position, results of operations and prospects.

### 2-1-5 Risks Related to The Interest Rate Fluctuation

Interest rates payable basically on the loans granted to EEC under the credit facilities provided to EEC and its subsidiaries vary. The increase in the variable interest rates which are unprotected under the hedging agreements may increase the cost of loans obtained by EEC, increase the interest expenses, and reduce the cash flows. Interest rates are also affected by several factors, including factors related to the government, monetary and tax policies, international and regional economic and political conditions, and other factors beyond EEC control. In relation to EEC variable interest loans, EEC is not currently hedging many loans thereof, including the Loan Agreement, against the fluctuated interest rates. In case the Extraordinary General Assembly disapproves the debt conversion, the Loan Transfer Agreement will not be concluded, being conditional upon EEC General Assembly approval of the debt conversion. The debt will persist as a long-term loan, which will cause EEC to pay financial costs on the debt as per the interest rates prevailing at that time.

Accordingly, EEC will incur extra costs if the variable interest rates, which are not protected under hedging agreements, increase. This will adversely affect EEC's business, financial position, results of operations and prospects.

### 2-1-6 Risks Related to Liquidity and Accrued Losses

On 18/08/1442H (corresponding to 31/03/2021G) EEC announced that its accrued losses reached 31.3% of its capital, due to many reasons, including recognition of a decrease in the value of salable real estates, lease contracts, and some operational assets, after reevaluation for SAR 316 million in the present year, which affected EEC's results, and made it subject to the procedures and instructions pertaining to the companies listed on the capital market whose accrued losses reached 20% and more of their capital. Incurring any further losses in the future by EEC will affect the availability of liquidity required for its business and plans, which will adversely affect EEC's business, financial position, results of operations and prospects.

In the event the accrued losses reach 50% or more, EEC will be subject to stricter requirements, including those set out in Article 150 of the Companies Law which obligates any of the company executives or the auditor to promptly, upon knowledge thereof, inform the chairman of the board, who shall promptly inform board members. The board of directors shall, within 15 days from the date of notification, call for an extraordinary general assembly meeting within 45 days from the date of its knowledge of the losses, to decide whether to increase or decrease the company's capital, in accordance with the provisions of the Law, to the extent where losses are decreased below half of the paid-in capital, or to dissolve the company prior to the date set forth in its articles of association.

The company shall be deemed terminated by the operation of law if the extraordinary general assembly fails to meet during the period set forth in paragraph 1 of this Article; if the assembly convenes but fails to issue a decision on the matter; or if it decides to increase the capital in accordance with this Article but the shares issued are not fully subscribed to within 90 days from the assembly's decision to increase the capital.

It should be noted that on 16/03/1442H (corresponding to 02/11/2020G) the Royal Decree No. (15016) was issued regarding the suspension of some provisions of the Companies Law. His Excellency the Minister of Commerce decision No. (348) was issued on 10/04/1442H. (Corresponding to 25/11/2020G), based on the Royal Decree, suspending Article (150) of the Companies Law for a period of two years from 01/08/1441H (corresponding to 25/03/2020G).

The debt conversion will contribute in decreasing the accumulated losses by SAR 88,685 thousand, from SAR 2,668,263 thousand (representing 31.4% of EEC's capital) to SAR 2,579,578 thousand (representing 22.8% of EEC's capital) due to a decline in the net loss for the year that resulted from the elimination of financing charges on the debt transferred to PIF, which amounted to SAR 90,935 thousand in 2020G.

For further details on the implications of debt conversion, see Section 4 (**Financial Information**) of this Circular.

## 2-2 Legal Risks

### 2-2-1 Risks Related to the Subscription and Debt Conversion Agreement

EEC and the Substantial Shareholders entered into the Subscription and Debt Conversion Agreement with PIF (conditional on EEC Extraordinary General Assembly's approval) on 12/01/1442H (corresponding to 31/08/2020G) (for further details about this agreement, see Section 6-2 (**Details of Debt Conversion Documents**) of this Circular). This agreement contains a number of terms and conditions, such as obtaining the approval of CMA, Tadawul, ECA, and EEC's Extraordinary General Assembly for the debt conversion. The agreement also includes a number of representations and warranties provided by EEC and Substantial Shareholders, such as those related to the financial statements of EEC and the Subsidiaries (including Albiotat Almtatorah Real Estate Investment Company), including providing PIF with all relevant financial statements that reflect a true and honest portrayal of EEC's and its Subsidiaries' position. In the event of any violation of the same by EEC or the Substantial Shareholders, then EEC and the Substantial Shareholders will be required to compensate PIF for any resulting losses. In the event that EEC or any of the Substantial Shareholders are unable to comply with any of the representations and warranties provided, then EEC and the Substantial Shareholders will be required to compensate PIF for any resulting losses, which will have an adverse impact on EEC's business, financial position, results of operations and prospects (for further details about the Subscription and Debt Conversion Agreement, see Section 6-2 (**Details of Debt Conversion Documents**) of this Circular).

Additionally, the PIF shall, under the provisions of the Subscription and Debt Conversion Agreement, be entitled to terminate the Agreement in a number of cases, such as the substantial decrease of the securities trading price in general, or EEC stock trading price in the capital market at any time prior to the Completion Date, noting that the substantial decrease is not defined in the Subscription and Debt Conversion Agreement, and it will be determined based on an agreement between the parties to the agreement on an event-by-event basis. Accordingly, it is worth noting that there is continuous risk represented in the possible termination of the Agreement by the PIF if the securities trading price decreases in general, or if EEC stock trading price in the capital market decreases at any time prior to the Completion Date.

In case the Subscription and Debt Conversion Agreement is terminated accordingly, EEC will not be able to achieve the debt conversion goals, which will adversely affect EEC's business, financial position, results of operations and prospects (for further details about the debt conversion goals, please refer to Section 3-1 "**Reasons for the Debt Conversion and the Implications for EEC**" hereof).

### 2-2-2 Risks Related to Litigation

EEC may be a party - whether as a plaintiff or defendant - to lawsuits and legal proceedings arising in the course of the debt conversion, including in relation to the Subscription and Debt Conversion Agreement, such that EEC may be involved in lawsuits and claims for compensation lodged by PIF in case it defaults in any of its obligations under the Subscription and Debt Conversion Agreement. It should be noted that the Zakat, Tax and Customs Authority filed a number of lawsuits against EEC pertaining to its objection to the amended zakat assessment for the years 2014G until 2018G (for further information, please refer to Section 6-4 (**Substantial Lawsuits**) that could substantially affect the Issuer's Business and its Subsidiaries or its Financial Position, or submitting a statement denying the same hereof). Any unfavorable outcome in such litigation, claims or proceedings would have a material adverse impact on EEC's business, financial position, results of operations and prospects, according to their relative relevance. Furthermore, regardless of the outcome of the lawsuits or proceedings, these lawsuits or proceedings may result in EEC incurring high costs, and may require EEC to commit significant resources to defend it, which will have an adverse impact on EEC's business, financial position, results of operations and prospects.

### 2-2-3 Risks Related to The Loan Transfer Agreement

MOF and PIF entered into a partial transfer agreement on 07/08/1442H (corresponding to 20/03/2021G) (referred to hereinafter as the **"Loan Transfer Agreement"**) for the purpose of transferring part of MOF Loan to EEC under the Loan Agreement concluded between MOF and EEC on 20/06/1432H (corresponding to 23/05/2011G), as amended on 02/12/1436H (corresponding to 15/09/2015G) (referred to hereinafter as the **"Loan Agreement"**), in the amount of two billion eight hundred thirty-three million three hundred thirty-three thousand three hundred forty Saudi Riyals (SAR 2,833,333,340) from the last payments due to MOF under the Loan Agreement (referred to hereinafter as the **"Transferred Amount"**), whereby PIF shall supersede MOF in relation to the Loan Agreement in terms of the rights and obligations pertaining to the Transferred Amount, and entitlement to the Transferred Amount that will be immediately payable on the Effective Date of the Loan Transfer Agreement. EEC submitted its approval for the transfer and the entitlement of the Transferred Amount on 17/08/1442H (corresponding to 30/03/2021G). The Loan Transfer Agreement will be effective automatically and concurrently with EEC Extraordinary General Assembly's approval of the debt conversion. As such, PIF will be the Relevant Creditor in connection with the debt conversion. All New Shares will be issued to it and will be deposited in PIF's portfolio within five (5) business days prior to the Completion Date. This transfer does not prejudice any of EEC's obligations under the terms and conditions of the Loan Agreement, and the Loan Agreement shall be effective with all its terms and conditions in respect to all obligations and rights that have not been transferred to PIF under the Loan Transfer Agreement. EEC is not a party to the Loan Transfer Agreement between MOF and PIF. Accordingly, in the event that either party violates or terminates this agreement and does not complete the Loan Transfer Agreement prior to or after EEC Extraordinary General Assembly's approval of the debt conversion, EEC may not have recourse against either PIF or MOF regarding completion of the Loan Transfer Agreement, which is a prerequisite for completing the Subscription and Debt Conversion Agreement. Therefore, this will have an adverse impact on EEC's business, financial position, results of operations, and prospects.

### 2-2-4 Risks Related to The Loan Agreement

#### A) Rescheduling the MOF Loan is conditional upon completion of debt conversion

EEC originally was bound to repay MOF Loan in seven (7) annual installments as of 14/08/1436H (corresponding to 01/06/2015G). However, based on the request submitted by EEC before the due date of any of the payments to MOF, MOF has rescheduled the amount of MOF loan so that it is payable in seven (7) annual installments as of 09/10/1441H (corresponding to 01/06/2020G), with an accrued commission paid annually until 15/12/1447H (corresponding to 01/06/2026G). Nevertheless, according to the request of EEC and before any of the payments was made to MOF, MOF agreed again to reschedule MOF loan (referred to hereinafter as **"MOF Conditional Approval for Rescheduling"**) on 07/11/1442H (corresponding to 17/06/2021G), so that the loan is payable in seven (7) annual installments as of 24/11/1445H (corresponding to 01/06/2024G), with an accrued commission paid annually until 29/01/1452H (corresponding to 01/06/2030G), provided that debt conversion is completed and an amendment to the Loan Agreement between MOF and EEC is concluded. Thus, if the amendment to the Loan Agreement between MOF and EEC is not concluded later, EEC will still be obligated to pay MOF's dues under the current Loan Agreement, which require EEC to pay dues that cannot be afforded by it, which will have an adverse impact on EEC's business, financial position, results of operations and prospects.

#### B) Removal of The Mortgage of Mortgaged Lands

The Loan Agreement includes a representation that EEC will provide a collateral to secure the entire loan amount by mortgaging to PIF land with an area of twenty-four million seven hundred twenty-four thousand four hundred twenty-three (24,724,423) square meters, comprising Plots Nos. 2, 3, 4, 5, 6 and 7 as set out in Deeds Nos. 2, 3, 4, 5, 6 and 7 dated 24/12/1431H (corresponding to 30/11/2010G) (referred to hereinafter as the **"Mortgaged Lands"**), which is part of the lands owned by EEC in King Abdullah Economic City in Rabigh, with a total area of 168,182,977 square meters. This mortgage will continue as EEC's obligation to MOF under the Loan Agreement, regardless of the transfer of the Transferred Amount to PIF under the Loan Transfer Agreement. On 07/11/1442H (corresponding to 17/06/2021G) at the request of EEC, MOF issued a letter of MOF conditional approval for rescheduling, under which removal of this mortgage can be considered, after EEC provides the MOF with its new business plan, however, there is currently, till the date of this circular, no agreement between EEC and MOF or PIF regarding removal of the mortgage of these lands or part thereof in relation to the Transferred Amount. Moreover, MOF or PIF may refuse to remove the mortgage of these lands or part thereof in proportion to the decrease in the MOF loan due to the transfer of the Transferred Amount under the Loan Transfer Agreement. Hence, EEC cannot fully benefit from the mortgaged lands until the mortgage of these lands (or part thereof) is removed or the Loan Agreement is terminated, which will have an adverse impact on EEC's business, financial position, results of operations and prospects.



## 2-3 Risks Related to Issue of New Shares

### 2-3-1 Risks Related to Failure to Achieve the Main Objective of the Debt Conversion

Through the debt conversion, EEC aims to improve its liquidity and credit position and enhance its ability to achieve its growth objectives. In the event that EEC relies on funds provided by various financiers to finance its current or future operations and projects, the D/E ratio of EEC will remain high, and will reach 65.5% as at the end of December 2020G, which will lead to EEC being unable to achieve its desired objectives of debt conversion.

### 2-3-2 Risks Related to Greater Difficulty of Realizing EPS

The debt conversion requires the issue of two hundred eighty-three million three hundred thirty-three thousand three hundred thirty-four (283,333,334) new ordinary shares (i.e., the New Shares), so that the number of EEC's shares post the increase will reach one billion three hundred thirty-three million three hundred thirty-three thousand three hundred thirty-four (1,333,333,334) ordinary shares. Future events that were unlikely to happen at the time of the debt conversion may occur, which may lead to EEC being unable to achieve the desired results of the debt conversion and may adversely affect its ability to realize earnings per share. Since the debt conversion will take place through issuing New Shares in EEC, which will increase the number of EEC's shares, if EEC's results do not improve post the debt conversion by a percentage greater than the increase in the number of shares, the losses per Company share may increase. Therefore, the increase in the number of issued shares in EEC will exacerbate any adverse impact on the earnings per share, which may adversely affect the share price.

### 2-3-3 Risks Related to Sale of a Large Number of Shares

The debt conversion may negatively affect the price of EEC's shares in Tadawul if PIF sells a large number of shares in Tadawul following the debt conversion, especially in light of the fact that PIF is not subject to any statutory lock-up period or contractual requirements with EEC that restrict the disposal of New Shares. PIF does not currently own any shares in EEC, and following the debt conversion, will own 25% of EEC's capital, which represents two billion eight hundred thirty-three million three hundred thirty-three thousand three hundred forty Saudi Riyals (SAR 2,833,333,340) of the market value of EEC.

### 2-3-4 Risks Related to Determination of the Issue Price of New Shares at Nominal Value

Pursuant to the Subscription and Debt Conversion Agreement, EEC, Substantial Shareholders and PIF agreed to determine the issue price at the nominal value of the New Shares, which amounts to ten Saudi Riyals (SAR 10) per share. The agreed price is not indicative of the market price and there is no assurance that the market price of EEC's shares will not decline as a result of the debt conversion. In the event that the market value of the share differs from the agreed issue price, EEC's share price may decrease.

### 2-3-5 Risks Related to EEC's Share Price dDuring The Trading Period

The issue price of ten Saudi Riyals (SAR 10) per share may not be indicative of the market price of EEC's shares. In addition, EEC's share price may not be stable and could be significantly affected by fluctuations resulting from a change of market trends in connection with the New Shares or EEC's existing Shares. These fluctuations may also result from several factors including, without limitation, equity market conditions, any regulatory changes in each of EEC's business segments, or the conditions and trends of EEC's business sector. Moreover, these fluctuations may also be attributed to EEC's poor performance, inability to implement future plans, the entry of new competitors, announcements by EEC or its competitors concerning mergers acquisitions, strategic alliances, or joint ventures, EEC's sale of shares in its Subsidiaries, or changes made by experts and securities analysts concerning the financial performance estimates. In addition, some Shareholders may sell large portions of shares (or the public has a perception that Shareholders will do so), which may be adversely affected by the market price of the shares.

### 2-3-6 Risks Related to a Change in The Existing Shareholders' Ownership and The Associated Decline in Voting Rights

Following the debt conversion, the public ownership will decrease from 50.74% to 38.05% and PIF will own 25% of EEC's capital, and accordingly, the current Shareholders' ability to vote will be impaired. Therefore, Shareholders will have less ability to influence EEC's decisions, especially the strategic ones that require EEC Shareholders' approval of in General Assemblies, such as appointing Directors, adjusting EEC's capital, or EEC's merger and other significant Company decisions.

### 3. Conversion of Debt to Shares Through Capital Increase

#### 3-1 Reasons for The Debt Conversion and The Implications for EEC

The New Shares will be issued to PIF (as the Creditor on the Effective Date), as detailed in Section 6-2 (**Details of Debt Conversion Documents**) of this Circular, against the amounts owed to it by EEC as a settlement of the entire debt under the Subscription and Debt Conversion Agreement. The completion of the debt conversion and allocation of New Shares to PIF pursuant to this agreement will constitute the final clearance and settlement between EEC and PIF in respect of the part of MOF Loan transferred to PIF (i.e., the debt). EEC and the Substantial Shareholders concluded the Subscription and Debt Conversion Agreement with PIF (EEC's Extraordinary General Assembly). Under this agreement, EEC's capital will be increased by converting the debt to New Shares. Under the Subscription and Debt Conversion Agreement, PIF has agreed to take all measures required by EEC to support, facilitate, and implement the debt conversion. The debt conversion will result in a decrease in the percentage of EEC's receivables to MOF, and the cost of the MOF Loan will decrease, given the remaining amount of MOF Loan will decline by the amount transferred to PIF.

Through the debt conversion, EEC aims to improve its liquidity ratio and credit position so as to be able to pay its financial obligations, and to enhance its ability to achieve its growth objectives. The capital increase through debt conversion will positively affect EEC's current performance indicators and enhance EEC's credit position, which will help it obtain a better credit rating that provides multiple competitive sources of funding. These implications will be directly reflected in realization of EEC's future strategic growth objectives (for further details on the implications of debt conversion, see Section 4 (Financial Information) of this Circular).

It should be noted that immediately following the debt conversion by increasing EEC capital, PIF's ownership in EEC will reach 25%, with the public's ownership declining from 50.74% to 38.05%.

#### 3-2 Changes in The Board of Directors or Executive Management as a Result of Debt Conversion

If the debt conversion is approved, it is expected that PIF will nominate three (3) new Directors in accordance with the Subscription and Debt Conversion Agreement, and the appointment of any new Directors will be subject to the required regulatory approvals, noting that the total number of Directors pursuant to the Bylaws is nine (9) Directors, the appointment of new Directors in the Board of Directors may result in changes in EEC committee memberships.

#### 3-3 Existing Ownership Structure before and after Debt Conversion

**Table 3-1: Company Ownership Structure before and after Debt Conversion<sup>(i)</sup>**

Shareholder	Before Debt Conversion			After Debt Conversion		
	Number of Shares	Nominal Value (SAR)	Ownership (%)	Number of Shares	Nominal Value (SAR)	Ownership (%)
Dayim Modern Real Estate Management Co.	142,710,570	1,427,105,700	16.78%	142,710,570	1,427,105,700	12.59%
ME Royal Capital LLC	80,000,000	800,000,000	9.41%	80,000,000	800,000,000	7.06%
Emaar Middle East LLC	50,000,000	500,000,000	5.88%	50,000,000	500,000,000	4.41%
ME Strategic Investments LLC	50,000,000	500,000,000	5.88%	50,000,000	500,000,000	4.41%
ME Holdings LLC	50,000,000	500,000,000	5.88%	50,000,000	500,000,000	4.41%
ME Partners Co. LLC	46,000,000	460,000,000	5.41%	46,000,000	460,000,000	4.06%
PIF	-	-	-	283,333,334	2,833,333,340	25.00%
Public	431,289,430	4,312,894,300	50.74%	431,289,430	4,312,894,300	38.05%
<b>Total</b>	<b>850,000,000</b>	<b>8,500,000,000</b>	<b>100.00%</b>	<b>1,133,333,334</b>	<b>11,333,333,340</b>	<b>100.00%</b>

Source: Saudi Stock Exchange and EEC

<sup>(i)</sup> Figures are rounded.



### 3-4 Assessment of the Debt and New Shares

The following table shows the amount by which EEC's capital will increase as result of the debt conversion using the issue price used for the purposes of preparing the pro forma consolidated financial information, and determined based on the New Shares' nominal value.

**Table 3-2: Amount by which EEC's Capital will Increase Using the Default Share Issue Price Used for the Purposes of Preparing the Pro Forma Consolidated Financial Information**

Creditor (on the Effective Date)	Nature of debt	Due amount to be converted into shares (SAR)	Capital increase (SAR) <sup>(i)</sup>
PIF	Long-term loan	2,833,333,340	2,833,333,340

Source: Company or EEC

<sup>(i)</sup> The capital increase is calculated using the issue price used for the purposes of preparing the pro forma consolidated financial information, and determined based on the nominal value of the New Shares.

The following table shows the number of New Shares that will be issued to PIF as a result of the debt conversion using the issue price, which is the nominal value per share, i.e., ten Saudi Riyals (SAR 10), and which is used for the purposes of preparing the pro forma consolidated financial information.

**Table 3-3: Number of New Shares to be Issued to PIF as a result of the Debt Conversion Using the Issue Price used for the Purposes of Preparing the Pro Forma Consolidated Financial Information, Determined Based on the New Shares' Nominal Value**

Debt owed to PIF (SAR)	Issue Price <sup>(i)</sup>	Number of New Shares	Additional Paid-up Capital
(A)	(B)	(A)/(B)= (C)	(C) * Nominal value (SAR 10) per share = D
2,833,333,340	10	283,333,334	2,833,333,340

Source: Company or EEC

<sup>(i)</sup> The issue price used for the purposes of preparing the pro forma consolidated financial information, and determined based on the nominal value of the New Shares.

The nominal value of the New Shares is ten Saudi Riyals (SAR 10) per share. The number of New Shares will be determined against the debt owed to PIF by dividing the amount of debt by the issue price (determined based on the nominal value of the New Shares).

The following table illustrates the effect of debt conversion on the share price using the issue price (determined based on the nominal value of the New Shares) used for the purposes of preparing the pro forma consolidated financial information:

**Table 3-4: Effect of Debt Conversion on the Share Price Using the Share Issue Price Used for the Purposes of Preparing the Pro Forma Consolidated Financial Information**

Debt to be converted into shares (SAR)	Issue Price <sup>(i)</sup>	Illustrative closing price of the shares at the date of the Extraordinary General Assembly's meeting (SAR) <sup>(ii)</sup>	Number of shares to be issued	Capital increase corresponding to New Shares (SAR)	Number of Existing Shares Issued	Total number of issued shares after debt conversion	Market value of EEC before debt conversion (SAR)	Value of New Shares	Market value of EEC after debt conversion	Share price after debt conversion (SAR)
A	B	C	A/B = D	D x nominal value (SAR 10) per share = E	F	D+F= G	CxF= H	CxD= I	H+I=J	J/G= K
2,833,333,340	10	13.54	283,333,334	2,833,333,340	850,000,000	1,133,333,334	11,509,000,000	3,836,333,342	15,345,333,342	13.54

Source: Company or EEC

<sup>(i)</sup> The issue price used for the purposes of preparing the pro forma consolidated financial information, and determined based on the nominal value of the New Shares.

<sup>(ii)</sup> The closing price of the shares was calculated as at July 28, 2021G for the purpose of clarifying the method of calculating the effect of debt conversion on the share price. The actual closing price of the shares will be calculated on the day preceding the Extraordinary General Assembly's meeting and may materially differ.

Based on the illustrative figures in the previous example, the share price after the debt conversion will be thirteen Saudi Riyals and fifty-four halalas (SAR 13.54), and the current ownership of the public shareholders, including Substantial Shareholders will decrease after the completion of the debt conversion by about 25%.

The following table illustrates the effect of debt conversion on the ownership of an individual shareholder as indicative, using the issue price (determined based on the nominal value of the New Shares) used for the purposes of preparing the pro forma consolidated financial information:

**Table 3-5: Effect of Debt Conversion on an Individual Shareholder's Shareholding as Indicative, Using the Share Issue Price Used for the Purposes of Preparing the Pro Forma Consolidated Financial Information**

Item <sup>(i)</sup>		
Number of Existing Shares Issued	A	850,000,000
Number of New Shares Issued	B	283,333,334
Total Shares Issued after Debt Conversion	A + B = C	1,133,333,334
Number of Shares Owned by the Investor (by default)	D	100,000,000
Illustrative Individual Ownership before Debt Conversion (%)	D/A = E	11.8%
Illustrative Individual Ownership after Debt Conversion (%)	D/C = F	8.8%
Effect of Conversion on Illustrative Individual Ownership (%)	$[(F/E)-1] \times 100$	(25.0%)
Number of Shares Owned by the Public (by default)	G	431,289,430
Illustrative Public Ownership before Debt Conversion (%)	G/A = H	50.74%
Illustrative Public Ownership after Debt Conversion (%)	G/C = I	38.05%
Effect of Conversion on Illustrative Public Ownership (%)	H - I = J	(12.68%)

Source: Company or EEC

<sup>(i)</sup> The issue price used for the purposes of preparing the pro forma consolidated financial information, and determined based on the nominal value of the New Shares.

### 3-5 Parties Directly or Indirectly Involved in Debt Conversion

The debt conversion does not involve transactions with any Related Parties.

### 3-6 Proposed Duration for Debt Conversion

The following table shows the proposed duration and significant steps of the debt conversion:

**Table 3-6: Proposed Duration and Significant Steps of the Debt Conversion**

Proposed Duration for Debt Conversion	
Event	Date
<b>(1) Required procedures related to the Extraordinary General Assembly meeting held to vote on increasing the Company's capital through debt conversion</b>	
Obtain the approval of the CMA and Ministry of Commerce for the call to convene EEC's Extraordinary General Assembly.	24 Muharram 1443H (corresponding to 1 September 2021G).
Invite EEC's Extraordinary General Assembly to meet to vote on increasing EEC's capital through debt conversion (provided that the second meeting of the Assembly will be convened one hour after the time set for the first meeting ends if the quorum is not satisfied), and to publish the invitation via the Saudi Stock Exchange website.	24 Muharram 1443H (corresponding to 1 September 2021G).
Publish the Shareholder Circular	25 Muharram 1443H (corresponding to 2 September 2021G).
Make the documents available for inspection	From 9:00 am to 4:00 pm, starting from 28/01/1443H (corresponding to 05/09/2021G) to 19/02/1443H (corresponding to 26/09/2021G).

Proposed Duration for Debt Conversion	
Event	Date
Allow a period of time during which EEC's Shareholders can vote on the debt conversion using modern technological means	From 10:00 am on 15/02/1443H (corresponding to 22/09/2021G) to 4:00 pm on 19/02/1443H (corresponding to 26/09/2021G).
Convene EEC's Extraordinary General Assembly meeting	19/02/1443H (corresponding to 26/09/2021G).
Announce the results of EEC's Extraordinary General Assembly meeting or failure to convene the meeting (in case that the quorum is not satisfied)	20/02/1443H (corresponding to 27/09/2021G).
<b>(2) Procedures required to be adopted in case that the quorum is not met for the first Extraordinary General Assembly meeting to vote on EEC's capital increase through debt conversion</b>	
Convene the second meeting of the Extraordinary General Assembly (the quorum will be deemed satisfied in case the shareholders present represent at least 25% of EEC's capital)	One hour after the end of the time set for the first meeting if the quorum in the first meeting is not satisfied.
Publish of the decisions taken by the second Extraordinary General Assembly meeting by EEC	20/02/1443H (corresponding to 27/09/2021G).
<b>(3) Procedures required to be adopted in case that the quorum is not met for the second Extraordinary General Assembly meeting to vote on EEC's capital increase through debt conversion</b>	
Obtain the CMA and Ministry of Commerce approval to convene the third meeting of EEC's Extraordinary General Assembly (in case that the quorum in the first and second meetings is not satisfied)	22/02/1443H (corresponding to 29/09/2021G).
Call to convene a third meeting of EEC's Extraordinary General Assembly (in case that the quorum in the first and second meetings is not satisfied)	23/02/1443H (corresponding to 30/09/2021G).
Convene the third meeting of EEC Extraordinary General Assembly (the third meeting shall be deemed valid regardless of the number of shares represented therein)	15/03/1443H (corresponding to 21/10/2021G).
Publish the results of the third EEC's Extraordinary General Assembly meeting by EEC	18/03/1443H (corresponding to 24/10/2021G).
<b>(4) Procedures required to be adopted in case of the Extraordinary General Assembly's disapproval of EEC's capital increase through debt conversion</b>	
In case of the Extraordinary General Assembly's disapproval on EEC's capital increase through debt conversion, the Board of Directors may call for another meeting of the Extraordinary General Assembly within six (6) months from the date of the CMA's approval for EEC's application for capital increase through debt conversion.	In case that the approval of the Extraordinary General Assembly on EEC's capital increase through debt conversion is not obtained before 01/07/1443H (corresponding to 02/02/2022G), the CMA approval shall be deemed void.
<b>(5) Procedures required to be adopted in case of the Extraordinary General Assembly's approval of EEC's capital increase through debt conversion</b>	
Provide the CMA with a copy of the Extraordinary General Assembly meeting minutes	Within ten (10) days of the date of the Extraordinary General Assembly's approval of EEC's capital increase through debt conversion.
Publish any amendments of the Bylaws via the portal of the Ministry of Commerce before amending the Bylaws officially with the Ministry of Commerce	Within one week of the date of the Extraordinary General Assembly's approval of EEC's capital increase through debt conversion.
Issue and register EEC's New Shares and list them on the Exchange	EEC's New Shares will be issued and registered within one week as of the date of the Extraordinary General Assembly's approval for EEC's capital increase through debt conversion.
Amend EEC's Bylaws and Commercial Registration	Within three (3) weeks of the date of the Extraordinary General Assembly's approval of EEC's capital increase through debt conversion.

## 4. Financial Information

The "Financial Information" section should be read in conjunction with EEC's pro forma consolidated financial information for the financial year ended on December 31, 2020G and the 2018G, 2019G and 2020G financial statements, which are included in this Circular.

Neither the Auditor nor any of its employees (forming part of the engagement team serving the Company) and the relatives of these employees has shares or interests of any kind in EEC or EEC's Subsidiaries in a manner which would impair their independence. As at the date of this Circular, the Auditor has provided, and not withdrawn, its written consent to the reference to its role as EEC's Auditor for the financial years ended December 31, 2018G, 2019G and 2020G.

The pro forma consolidated financial information has been prepared by EEC's Management to demonstrate the financial impact on the 2020G financial statements as a result of debt conversion as if the conversion had taken place on January 1, 2020G, together with the resulting adjustments during the rest of the financial year ended December 31, 2020G. The pro forma consolidated financial information has been prepared based on the default share issue price of ten Saudi Riyals (SAR 10) for illustrative purposes only. The pro forma adjustments are based on the assumptions set out in the notes attached to the pro forma consolidated financial information. It should be noted that such information does not reflect the Group's actual financial results or financial position, and does not give any indication of the results and future financial position of the Group's activities upon the completion of the above-mentioned conversion.

### 4-1 Comparison between The Pro-forma and Audited Results of Operations to Demonstrate The Effect of Debt Conversion

#### 4-1-1 Consolidated Statement of Financial Position

The following table sets out a comparison between the audited and pro forma consolidated statement of financial position as at December 31, 2020G:

**Table 4-1: Comparison between the Audited and Pro Forma Consolidated Statement of Financial Position as at December 31, 2020G**

SAR '000	As at December 31, 2020G		
	2020G (Audited)	Adjustments Pro forma	2020G (Pro forma)
<b>Assets</b>			
<b>Non-current assets</b>			
Property and equipment	5,609,660	-	5,609,660
Right-of-use assets	84,250	-	84,250
Investment properties	4,906,277	-	4,906,277
Unbilled revenue	300,848	-	300,848
Development properties	1,315,494	-	1,315,494
Intangible assets	7,877	-	7,877
Investment in equity accounted investees	2,445,822	-	2,445,822
Employees' receivable - Home Ownership Scheme	117,848	-	117,848
<b>Total non-current assets</b>	<b>14,788,076</b>	<b>-</b>	<b>14,788,076</b>
<b>Current assets</b>			
Current portion of employees' receivable - Home Ownership Scheme	7,785	-	7,785
Unbilled revenue	444,610	-	444,610
Development properties	145,153	-	145,153
Account receivable and other current assets	654,776	-	654,776
Murabaha term deposits with banks	101,358	-	101,358

SAR '000	As at December 31, 2020G		
	2020G (Audited)	Adjustments Pro forma	2020G (Pro forma)
Cash and cash equivalents	174,904	-	174,904
<b>Total current assets</b>	<b>1,528,586</b>	<b>-</b>	<b>1,528,586</b>
<b>Total assets</b>	<b>16,316,662</b>	<b>-</b>	<b>16,316,662</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	8,500,000	2,833,333	11,333,333
Statutory reserve	11,536	-	11,536
Accumulated losses	(2,668,263)	88,685	(2,579,578)
<b>Total equity</b>	<b>5,843,273</b>	<b>2,922,018</b>	<b>8,765,291</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Long term loans	5,475,161	(2,833,333)	2,641,828
Lease liabilities	51,319	-	51,319
Employees' terminal benefits	61,937	-	61,937
Unearned financing component on long-term loans	93,906	-	93,906
Unearned interest income - Home Ownership Scheme	31,977	-	31,977
<b>Total non-current liabilities</b>	<b>5,714,300</b>	<b>(2,833,333)</b>	<b>2,880,967</b>
<b>Current liabilities</b>			
Accounts payable and accruals	1,510,420	(90,935)	1,419,485
Accrued Zakat	108,687	2,250	110,937
Current portion of long-term loans	2,626,250	-	2,626,250
Short-term loans	472,933	-	472,933
Lease liabilities	40,799	-	40,799
<b>Total current liabilities</b>	<b>4,759,089</b>	<b>(88,685)</b>	<b>4,670,404</b>
<b>Total liabilities</b>	<b>10,473,389</b>	<b>(2,922,018)</b>	<b>7,551,371</b>
<b>Total equity and liabilities</b>	<b>16,316,662</b>	<b>-</b>	<b>16,316,662</b>

Source: The 2020G financial statements, and EEC's pro forma consolidated financial information for the financial year ended December 31, 2020G.

## Share Capital

The capital increased from SAR 8,500 million to SAR 11,333 million as a result of issuing (283,333,334) New Shares in the amount of SAR 2,833 million, based on the default share issue price of ten Saudi Riyals (SAR 10) against the debt conversion. The debt conversion volume and conversion price assumptions are based on the Subscription and Debt Conversion Agreement (for further details about the Subscription and Debt Conversion Agreement, see Section 6-2 (**Details of Debt Conversion Documents**) hereof)..

Below are the details of the change in capital after the debt conversion:

**Table 4-2: Current and Pro Forma EEC Capital after Debt Conversion as at December 31, 2020G**

SAR '000	As at December 31, 2020G		
	2020G (Audited)	Adjustments Pro forma	2020G (Pro forma)
Share capital			
Issued for cash	6,800,000	2,833,333	9,633,333
Issued for consideration in kind	1,700,000	-	1,700,000
<b>Total</b>	<b>8,500,000</b>	<b>2,833,333</b>	<b>11,333,333</b>

Source: The 2020G financial statements, and EEC's pro forma consolidated financial information for the financial year ended December 31, 2020G.

## Accumulated Losses

Accumulated losses decreased by SAR 88,685 thousand, from SAR 2,668,263 thousand (representing 31.4% of EEC's capital) to SAR 2,579,578 thousand (representing 22.8% of EEC's capital) due to a decline in the net loss for the year that resulted from the elimination of financing charges on the debt transferred to PIF, which amounted to SAR 90,935 thousand in 2020G.

## Long-Term Loans

Based on the pro forma financial statements, the converted debt is considered part of the long-term loans, and the long-term loans amounting to 5,475,161 thousand SAR as at December 31, 2020G were reduced by the converted debt amount of SAR 2,833,333 thousand, and thus reached SAR 2,641,828 thousand.

## Accounts Payable and Accruals

Accounts payable and accruals decreased as a result of elimination of part of the due financing charges by an amount of SAR 90,935 thousand related to the financing charges on the debt transferred to PIF during 2020G.

## Zakat Payable

Debt conversion affected the calculation of the zakat base given its impact on the loss for the year before zakat, which decreased by SAR 90,935 thousand as a result of a decline in the financing charges, resulting in an increase in the zakat base by the same amount. Accordingly, the zakat payable balance increased by SAR 2,250 thousand, from SAR 108,687 thousand to SAR 110,937 thousand, as a result of the zakat expenses increasing by the same amount.

#### 4-1-2 Consolidated Statement of Profit or Loss and Other Comprehensive Income

The following table sets out a comparison between the audited and pro forma consolidated statement of profit or loss and other comprehensive income for the financial year ended December 31, 2020G.

**Table 4-3: Comparison between the Audited and Pro Forma Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Financial Year ended December 31, 2020G**

SAR 'ooo	As at December 31, 2020G		
	2020G (Audited)	Adjustments Pro forma	2020G (Pro forma)
Revenues	547,287	-	547,287
Cost of revenue	(866,316)	-	(866,316)
<b>Total (loss)/ profit</b>	<b>(319,029)</b>	<b>-</b>	<b>(319,029)</b>
<b>Expenses</b>			
Selling and marketing expenses	(79,676)	-	(79,676)
General and administrative expenses	(277,094)	-	(277,094)
Impairment loss	(167,960)	-	(167,960)
Depreciation expenses	(191,786)	-	(191,786)
Amortization	(8,094)	-	(8,094)
<b>Loss from main operations</b>	<b>(1,043,639)</b>	<b>-</b>	<b>(1,043,639)</b>
<b>Other income/(expenses)</b>			
Income from a murabaha deposit	2,536	-	2,536
Financial charges	(315,568)	90,935	(224,633)
Share of results of equity accounted investee	48,065	-	48,065
Other income, net	115,242	-	115,242
<b>Loss for the year before zakat</b>	<b>(1,193,364)</b>	<b>90,935</b>	<b>(1,102,429)</b>
Zakat	(55,000)	(2,250)	(57,250)
<b>Net loss for the year</b>	<b>(1,248,364)</b>	<b>88,685</b>	<b>(1,159,679)</b>
<b>Other comprehensive (loss)/income</b>			
<b>Items that will be reclassified to pro forma consolidated statement of profit or loss in subsequent periods</b>			
Share of other comprehensive loss from equity accounted investee	(14,170)	-	(14,170)
<b>Items that will not be reclassified to pro forma consolidated statement of profit or loss in subsequent periods</b>			
Re-measurement gain on defined benefit obligations	3,552	-	3,552
<b>Total comprehensive loss for the year</b>	<b>(1,258,982)</b>	<b>88,685</b>	<b>(1,170,297)</b>
<b>Loss per share</b>			
<b>Basic and diluted loss per share attributable to ordinary equity holders of the Parent Company (in Saudi Riyals per share)</b>	<b>(1.47)</b>	<b>0.45</b>	<b>(1.02)</b>

Source: The 2020G financial statements, and EEC's pro forma consolidated financial information for the financial year ended December 31, 2020G.

#### Financial charges

During 2020G, Financial charges decreased by SAR 90,935 thousand from SAR 315,568 thousand to SAR 224,633 thousand due to elimination of part of the loans related to the converted debt.

#### Zakat

Zakat charges increased by SAR 2,250 thousand from SAR 55,000 thousand to SAR 57,250 thousand as a result of a decline in financial charges by SAR 90,935 thousand, which led to an increase in the zakat base and consequently an increase in the zakat charges.

For further details about claims related to zakat, see Table (6-3) "Table of Material Litigation" of this Circular.

### Net loss for the year

The net loss for the year decreased by SAR 88,685 thousand from SAR 1,258,982 thousand to SAR 1,170,297 thousand due to a decline in financial charges by SAR 90,935 thousand and an increase in Zakat charges by SAR 2,250 thousand due to debt conversion.

### 4-1-3 Consolidated Statement of Cash Flows

The following table sets out a comparison between the audited and pro forma consolidated statement of cash flows for the financial year ended December 31, 2020G.

**Table 4-4: Comparison between the Audited and Pro Forma Consolidated Statement of Cash Flows for the Financial Year ended December 31, 2020G**

SAR '000	For the year ended 31 December 2020G		
	2020G (Audited)	Adjustments Pro forma	2020G (Pro forma)
<b>Operating activities</b>			
Loss for the year before zakat	(1,193,364)	90,935	(1,102,429)
<b>Adjustment to reconcile loss for the year before Zakat to net cash flows:</b>			
Depreciation	341,912	-	341,912
Impairment loss	264,989	-	264,989
Amortization	8,094	-	8,094
Financial charges	315,568	(90,935)	224,633
Share of results of equity accounted investees	(48,065)	-	(48,065)
Murabaha deposit income	(2,536)	-	(2,536)
Unwinding of unearned interest income	(39,495)	-	(39,495)
Gain on disposal of investment properties	(5,717)	-	(5,717)
Employee benefit expense- Home Ownership Scheme	8,264	-	8,264
Provision for development properties	137,622	-	137,622
Provision for employees' terminal benefits	15,930	-	15,930
Employee receivables - Home Ownership Program	(10,062)	-	(10,062)
Unbilled revenue, net	298,661	-	298,661
Development properties	110,347	-	110,347
Accounts receivables and other current assets	(84,991)	-	(84,991)
Accounts payable and accruals	88,834	-	88,834
Financial charges paid	(191,175)	-	(191,175)
Finance charges paid on lease liabilities	(3,958)	-	(3,958)
Zakat paid	(68,129)	-	(68,129)
Employee terminal benefits paid	(14,309)	-	(14,309)
<b>Net cash used in operating activities</b>	<b>(71,580)</b>		<b>(71,580)</b>
<b>Investment activities</b>			
Investment in a murabaha term deposit	1,481,554	-	1,481,554
Murabaha term deposit encashment	(1,582,359)	-	(1,582,359)
Income from murabaha deposit	2,536	-	2,536
Additions to property and equipment	(144,002)	-	(144,002)



SAR '000	For the year ended 31 December 2020G		
	2020G (Audited)	Adjustments Pro forma	2020G (Pro forma)
Additions to investment real estate	(12,168)	-	(12,168)
Proceeds from sale of investment real estate	13,023	-	13,023
Additions to intangible assets	(3,455)	-	(3,455)
<b>Net cash used in investing activities</b>	<b>(244,871)</b>	<b>-</b>	<b>(244,871)</b>
<b>Financing activities</b>			
Proceeds from loans	256,946	-	256,946
Loan payments	(162,750)	-	(162,750)
Movement in unearned interest income	17,013	-	17,013
Lease liability payments	(24,247)	-	(24,247)
<b>Net cash from financing activities</b>	<b>86,962</b>	<b>-</b>	<b>86,962</b>
<b>Decrease in cash and cash equivalents</b>	<b>(229,489)</b>	<b>-</b>	<b>(229,489)</b>
Cash and cash equivalents at the beginning of the year	404,393	-	404,393
<b>Cash and cash equivalents at the end of the year</b>	<b>174,904</b>		<b>174,904</b>

Source: The 2020G financial statements, and EEC's pro forma consolidated financial information for the financial year ended December 31, 2020G.

### Loss for the year before zakat

The loss for the year before zakat decreased by SAR 90,935 thousand, from SAR 1,193,364 million to SAR 1,102,429 million as a result of financial charges decreasing by SAR 90,935 thousand.

### Financial charges

Financial charges decreased by SAR 90,935 thousand from SAR 315,568 thousand to SAR 224,633 thousand as a result of elimination of the financial charges related to the converted debt during 2020G.

## 4-2 KPIs

The following table shows a comparison between EEC's KPIs based on the consolidated financial statements and pro forma financial information for the financial year ended December 31, 2020G.

**Table 4-5: Comparison between EEC's KPIs based on the Consolidated and Pro Forma Financial Statements for the Financial year ended December 31, 2020G.**

	As at December 31, 2020G	
	2020G (Audited)	2020G (Pro forma)
Gross profit (loss) margin (%) <sup>(1)</sup>	(58.3%)	(58.3%)
Net profit (loss) margin (%) <sup>(2)</sup>	(228.1%)	(211.9%)
ROA (%) <sup>(3)</sup>	(7.7%)	(7.1%)
ROE (%) <sup>(4)</sup>	(21.4%)	(13.2%)
Ratio of long-term loans to total equity and total long-term loans (times) <sup>(5)</sup>	0.48	0.23

Source: The 2020G financial statements, and EEC's pro forma consolidated financial information for the financial year ended December 31, 2020G.

<sup>(1)</sup> Gross profit (loss) margin is calculated by dividing gross profit (loss) by revenue.

<sup>(2)</sup> Net profit (loss) margin is calculated by dividing the net profit (loss) for the year by the revenue.

<sup>(3)</sup> ROA is calculated by dividing the net profit (loss) for the year by total assets.

<sup>(4)</sup> ROE is calculated by dividing the net profit (loss) for the year by total equity.

<sup>(5)</sup> Ratio of long-term loans to total equity and total long-term loans is calculated by dividing the total long-term loans by the sum of total equity and total long-term loans.

Debt conversion directly affected the financial charges by elimination of the part charged to the transferred amount, which led to a decline in realized losses for the year, and accordingly this had a slight positive impact on net loss margin, ROA and ROE. In addition, the increase in equity after the debt conversion contributed to a greater increase in ROE.

The ratio of long-term loans to total equity and total long-term loans also decreased due to reclassification of the debt amounting to SAR 2,833 million to equity.

The following table shows a comparison between EEC's KPIs for working capital based on the consolidated financial statements and pro forma financial information for the financial year ended December 31, 2020G.

**Table 4-6: Comparison between EEC's KPIs for Working Capital based on the Consolidated and Pro Forma Financial Statements for the Financial Year ended December 31, 2020G.**

	As at December 31, 2020G	
	2020G (Audited)	2020G (Pro forma)
Working capital as a percentage of net loss for the year (%) <sup>(1)</sup>	51.0% <sup>(6)</sup>	47.3% <sup>(6)</sup>
Days inventory outstanding (development real estate) (days) <sup>(2)</sup>	61	61
Days receivables outstanding (days) <sup>(3)</sup>	335	335
Days payable outstanding (days) <sup>(4)</sup>	243	243
Current ratio (times) <sup>(5)</sup>	0.32	0.33

Source: The 2020G financial statements, and EEC's pro forma consolidated financial information for the financial year ended December 31, 2020G.

<sup>(1)</sup> Working capital is calculated as a percentage of net annual loss by dividing working capital (total current assets (excluding cash and cash equivalents and Murabaha term deposits) less total current liabilities (excluding current portion of long-term loans, short-term loans, and lease liabilities) by the net loss for the year.

<sup>(2)</sup> Days inventory outstanding are calculated by dividing the balance of development real estate by the cost of revenue multiplied by 365 days.

<sup>(3)</sup> Days trade receivables outstanding are calculated by dividing the net trade receivables by revenue multiplied by 365 days.

<sup>(4)</sup> Days trade payables outstanding are calculated by dividing the net trade payables by revenue multiplied by 365 days.

<sup>(5)</sup> The current ratio is calculated by dividing the total current assets by the total current liabilities.

<sup>(6)</sup> It should be noted that the positive ratio resulted from dividing the negative working capital by the net loss for the year.

As at December 31, 2020G, EEC's current liabilities exceeded EEC's current assets by SAR 3,230 million. This was reflected in the working capital ratio of the net loss for the year above. Debt conversion affected working capital, given current liabilities decreased as a result of a greater financial charges payable decreasing more than the increase in zakat payable, which led to the current ratio to increase from 0.32 times to 0.33 times.

### 4-3 Loss per share

The following table shows the loss per share for the financial year ended December 31, 2020G and the debt conversion's effect on it.

**Table 4-7: Comparison between the Loss per Share in the Consolidated and Pro Forma Financial Statements for the Financial Year Ended December 31, 2020G**

	As at December 31, 2020G	
	2020G (Audited)	2020G (Pro forma)
Loss attributable to holders of ordinary shares in the Parent Company (SAR)	(1,248,364)	(1,159,679)
Weighted average number of ordinary shares (thousand shares)	850,000	1,133,333
Value of shares (SAR)	(1.47)	(1.02)

Source: The 2020G financial statements, and EEC's pro forma consolidated financial information for the financial year ended December 31, 2020G.

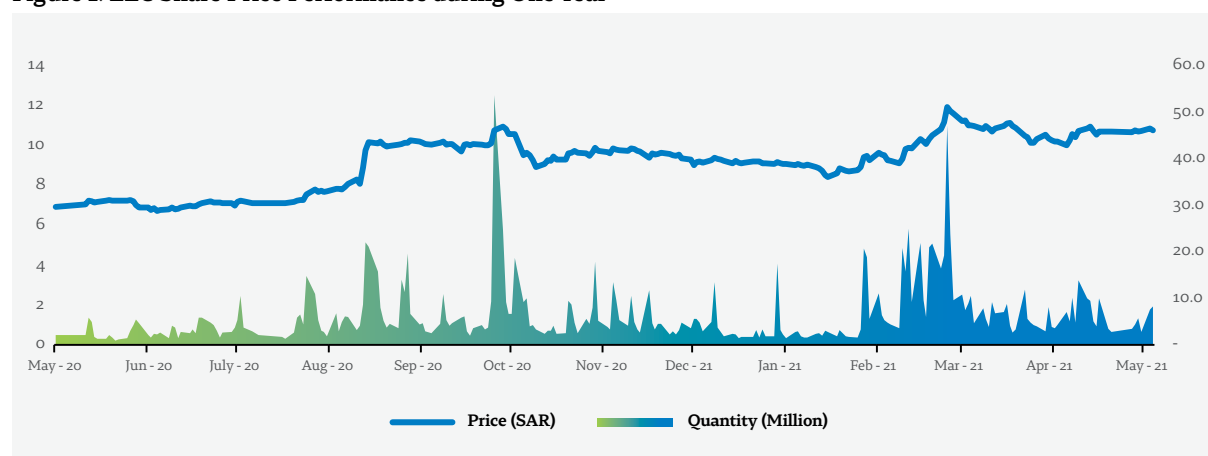
Earnings or loss per share is calculated by dividing the profit or loss for the year attributable to shareholders of ordinary shares in the Parent Company by the weighted average number of existing ordinary shares during the year.

Loss per share post the default debt conversion decreased from SAR 1.47 per share in 2020G to SAR 1.02 per share. The decrease in loss is driven by the decline in the loss for the year 2020G from SAR 1,248 million to SAR 1,160 million due to the lower financial charges related to the amount of the converted debt. The increase in the number of shares from 850 million shares to 1,133 million shares resulting from the debt conversion also contributed to a drop in the loss per share.

#### 4-4 Evolution of EEC's Share Price

The following figure shows the evolution of EEC's share price during one year prior to EEC's submission of the application for registration and offer of its securities to CMA, from May 21, 2020G to May 24, 2021G.

**Figure 1: EEC Share Price Performance during One Year**



Source: Tadawul (as at May 24, 2021G).

**Table 4-8: EEC Share Price Performance during One Year**

Year	2020G								2021G				
Month	May	June	July	August	September	October	November	December	January	February	March	April	May
Average total trading volume during the month (million)	2.1	2.7	3.7	5.0	8.7	9.3	6.1	4.5	2.9	5.3	14.6	6.0	5.9
Average price during the month (SAR)	4.5	7.0	7.1	7.6	10.0	10.1	9.5	9.4	9.1	9.0	10.7	8.3	10.7

Source: Tadawul (as of May 24, 2021G).

## 4-5 Summary of the audited financial statements for the financial years ended December 31, 2018G, 2019G and 2020G

### 4-5-1 Consolidated Statement of Financial Position

Table 4-9: Consolidated Statement of Financial Position

SAR 'ooo	As at December 31		
	2018G	2019G	2020G
<b>Assets</b>			
<b>Non-current assets</b>			
Property and equipment	5,466,868	5,879,747	5,609,660
Right-of-use assets	-	113,332	84,250
Investment properties	5,183,031	5,045,060	4,906,277
Unbilled revenue	183,901	630,975	300,848
Development properties	1,458,324	922,763	1,315,494
Intangible assets	18,616	12,516	7,877
Investment in equity accounted investees	2,422,565	2,411,927	2,445,822
Employees' receivable - Home Ownership Scheme	104,497	115,382	117,848
<b>Total non-current assets</b>	<b>14,837,802</b>	<b>15,131,702</b>	<b>14,788,076</b>
<b>Current Assets</b>			
Current portion of employees' receivables - Home Ownership Scheme	6,278	7,213	7,785
Unbilled revenue	508,395	413,144	444,610
Development properties	347,079	720,845	145,153
Accounts receivables and other current assets	761,538	656,661	654,776
Murabaha term deposits with banks	50,000	-	101,358
Cash and cash equivalents	602,632	404,393	174,904
<b>Total current assets</b>	<b>2,275,922</b>	<b>2,202,256</b>	<b>1,528,586</b>
<b>Total Assets</b>	<b>17,113,724</b>	<b>17,333,958</b>	<b>16,316,662</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	8,500,000	8,500,000	8,500,000
Statutory reserve	11,536	11,536	11,536
Accumulated losses	(861,470)	(1,409,281)	(2,668,263)
<b>Total equity</b>	<b>7,650,066</b>	<b>7,102,255</b>	<b>5,843,273</b>
<b>Non-current liabilities</b>			
Long-term loans	7,051,250	6,556,250	5,475,161
Lease liabilities	-	80,625	51,319
Employees' terminal benefits	64,220	63,868	61,937
Unearned financing component on long term receivables	68,911	116,388	93,906
Unearned interest income - Home Ownership Scheme	26,871	30,737	31,977
<b>Total non-current liabilities</b>	<b>7,211,252</b>	<b>6,847,868</b>	<b>5,714,300</b>
<b>Current liabilities</b>			
Accounts payable and accruals	1,088,063	1,305,108	1,510,420
Accrued Zakat	156,843	121,816	108,687

SAR '000	As at December 31		
	2018G	2019G	2020G
Current portion of long-term loans	857,500	1,557,500	2,626,250
Short-term loans	150,000	366,398	472,933
Lease liabilities	-	33,013	40,799
<b>Total current liabilities</b>	<b>2,252,406</b>	<b>3,383,835</b>	<b>4,759,089</b>
<b>Total liabilities</b>	<b>9,463,658</b>	<b>10,231,703</b>	<b>10,473,389</b>
<b>Total equity and liabilities</b>	<b>17,113,724</b>	<b>17,333,958</b>	<b>16,316,662</b>

Source: Consolidated financial statements for the years ended December 31, 2018G, 2019G and 2020G.

#### 4-5-2 Consolidated Statement of Profit or Loss and Other Comprehensive Income

**Table 4-10: Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Financial years ended December 31, 2018G, 2019G and 2020G**

SAR '000	Financial year ended December 31		
	2018G	2019G	2020G
Revenues	1,008,234	946,807	547,287
Cost of revenue	(669,827)	(644,819)	(866,316)
<b>Gross (loss) / profit</b>	<b>338,407</b>	<b>301,988</b>	<b>(319,029)</b>
Selling and marketing expenses	(81,742)	(79,491)	(79,676)
General and administrative expenses	(263,584)	(290,652)	(277,094)
Impairment loss	(49,835)	(59,881)	(167,960)
Depreciation	(186,514)	(199,521)	(191,786)
Amortization	(12,443)	(10,479)	(8,094)
<b>Loss from main operations</b>	<b>(255,711)</b>	<b>(338,036)</b>	<b>(1,043,639)</b>
Murabaha deposit income	7,737	791	2,536
Financial charges	(59,653)	(268,736)	(315,568)
Share of results of equity accounted investee	26,130	7,983	48,065
Other income, net	209,909	109,607	115,242
<b>Loss for the year before zakat</b>	<b>(71,588)</b>	<b>(488,391)</b>	<b>(1,193,364)</b>
Zakat	(66,000)	(45,000)	(55,000)
<b>Net loss for the year</b>	<b>(137,588)</b>	<b>(533,391)</b>	<b>(1,248,364)</b>
<b>Other comprehensive (loss)/income</b>			
Share of other comprehensive loss from equity accounted investee	7,744	(18,621)	(14,170)
Re-measurement gain on defined benefit obligations	183	4,810	3,552
<b>Total comprehensive loss for the year</b>	<b>(129,661)</b>	<b>(547,202)</b>	<b>(1,258,982)</b>
<b>Total loss attributable to:</b>			
Shareholders of the Parent Company	(127,158)	(547,202)	(1,258,982)
Non-controlling equity	(2,503)	-	-
<b>Basic and diluted loss per share attributable to ordinary equity holders of the Parent Company (in SR per share)</b>	<b>(0,16)</b>	<b>(0,63)</b>	<b>(1,47)</b>

Source: Consolidated financial statements for the years ended December 31, 2018G, 2019G and 2020G.

### 4-5-3 Consolidated Statement of Cash Flows

**Table 4-11: Consolidated Statement of Cash Flows for the Financial Years Ended December 31, 2018G, 2019G and 2020G**

SAR '000	Financial year ended December 31		
	2018G	2019G	2020G
<b>Operating activities</b>			
Loss for the year before zakat	(71,588)	(488,391)	(1,193,364)
Depreciation	292,991	349,945	341,912
Impairment loss	49,835	59,881	264,989
Amortization	12,443	10,479	8,094
Financial charges	59,653	268,736	315,568
Share of results of equity accounted investees	(26,130)	(7,983)	(48,065)
Murabaha deposit income	(7,737)	(791)	(2,536)
Unwinding of unearned interest income	(1,444)	(2,622)	(39,495)
Gain on disposal of investment properties	(84,114)	(38,297)	(5,717)
Gain on disposal of property and equipment	-	140	-
Employees' benefit expense - Home Ownership Scheme	10,335	6,979	8,264
Provision for development properties	(1,329)	-	137,622
Provision for employees' terminal benefits	15,113	17,234	15,930
	<b>248,028</b>	<b>175,310</b>	<b>(196,798)</b>
<b>Working capital adjustments</b>			
Employees' receivables - Home Ownership Scheme	(32,857)	(18,799)	(10,062)
Unbilled revenue, net	(287,812)	(367,090)	298,661
Development properties	(201,826)	179,626	110,347
Accounts receivables and other current assets	13,530	42,003	(84,991)
Long-term receivables	24,059	-	-
Accounts payable and accruals	(14,154)	151,957	88,834
<b>Net cash generated from operations</b>	<b>(251,032)</b>	<b>163,007</b>	<b>205,991</b>
Financial charges paid	(289,066)	(318,979)	(191,175)
Finance charges paid on lease liabilities	-	(5,265)	(3,958)
Zakat paid	(62,243)	(80,027)	(68,129)
Employees' terminal benefits paid	(3,468)	(12,776)	(14,309)
<b>Net cash used in operating activities</b>	<b>(605,809)</b>	<b>(254,040)</b>	<b>(71,580)</b>
<b>Investment activities</b>			
Investment in a murabaha term deposit	(13,758,746)	(8,860,894)	1,481,554
Murabaha term deposit encashment	14,232,856	8,910,894	(1,582,359)
Net movement in murabaha term deposits with banks	-	-	-
Murabaha deposit income	7,929	1,924	2,536
Additions to property and equipment	(392,516)	(378,910)	(144,002)
Additions to investment investment properties	(159,434)	(106,557)	(12,168)
Proceeds from sale of investment properties	-	46,506	13,023

SAR 'ooo	Financial year ended December 31		
	2018G	2019G	2020G
Proceeds from disposal of property and equipment	-	140	-
Additions to intangible assets	(15,861)	(4,379)	(3,455)
<b>Net cash used in investing activities</b>	<b>(85,772)</b>	<b>(391,276)</b>	<b>(244,871)</b>
<b>Financing activities</b>			
Proceeds from loans	650,000	1,666,398	256,946
Repayments of loans	(591,250)	(1,245,000)	(162,750)
Movement in unearned interest income	7,653	53,967	17,013
Repayment of short term lease liabilities	-	(507)	-
Repayment of lease liabilities	-	(27,781)	(24,247)
<b>Net cash generated from financing activities</b>	<b>66,403</b>	<b>447,077</b>	<b>86,962</b>
Decrease in cash and cash equivalents	(625,178)	(198,239)	(229,489)
Cash and cash equivalents at the beginning of the year	1,227,810	602,632	404,393
<b>Cash and cash equivalents at the end of the year</b>	<b>602,632</b>	<b>404,393</b>	<b>174,904</b>

Source: Consolidated financial statements for the years ended December 31, 2018G, 2019G and 2020G.

## 5. Directors and Senior Executives

### 5-1 Directors and Secretary

#### 5-1-1 Formation of the Board of Directors

EEC's Board of Directors consists of nine (9) Directors appointed by EEC's General Assembly. The duties and responsibilities of the Board of Directors are determined under the Companies Law, The Corporate Governance Regulations, EEC's Bylaws and EEC's internal governance regulation of the Company. The term of the Directors' membership in the Board of Directors, including the Chairman, shall be for a maximum period of three (3) years for each period.

The following table lists the names of the Directors and the Secretary for the Board's current period, starting on 09/02/1442H (corresponding to 26/09/2020G) and ending on 10/03/1445H (corresponding to 25/09/2023G) as at the date of this Circular:

**Table 5-1: Names of the Directors and the Secretary as at the Date of this Circular**

Name	Title	Nationality	Membership Status	Independence	Direct Ownership (%) <sup>(1)</sup>		Indirect Ownership (%)		Date of Appointment <sup>(2)</sup>
					Before Debt Conversion	After Debt Conversion	Before Debt Conversion	After Debt Conversion	
Jamal Majid Khalfan Bin Theniyeh	Chairman	Emirati	Non-executive	Non-independent	0.0004831	0.00036238	N/A	N/A	09/02/1442H (corresponding to 26/09/2020G)
Abdullah Ibrahim Sulaiman Al Howaish	Vice Chairman	Saudi	Non-executive	Non-independent	0.0000120	0.00000900	N/A	N/A	09/02/1442H (corresponding to 26/09/2020G)
Mohammad Nabil Mohammad Hassan Hefni	Director	Saudi	Non-executive	Non-independent	N/A	N/A	N/A	N/A	09/02/1442H (corresponding to 26/09/2020G)
Arif Abdullah Abdurrahman Alharimi Albastaki	Director	Emirati	Non-executive	Independent	0.0001176	0.00008824	N/A	N/A	09/02/1442H (corresponding to 26/09/2020G)
Osama Omar Saeed Abdullah Barayan	Director	Saudi	Non-executive	Independent	0.0000117	0.00000882	N/A	N/A	09/02/1442H (corresponding to 26/09/2020G)
Falih Moutasim Faleh Hajjaj	Director	Saudi	Non-executive	Independent	0.0000011	0.0000008	N/A	N/A	09/02/1442H (corresponding to 26/09/2020G)
Ahmed Yousef Mohamed Saeed Boshnak	Director and Managing Director	Saudi	Executive	Non-independent	0.0000117	0.00000882	N/A	N/A	09/02/1442H (corresponding to 26/09/2020G)
Badr Hisham Ahmed Yousef Ali Reda	Director	Saudi	Non-executive	Independent	0.0000005	0.0000004	N/A	N/A	09/02/1442H (corresponding to 26/09/2020G)
Hani Othman Baothman	Director	Saudi	Non-executive	Non-independent	N/A	N/A	N/A	N/A	06/07/1442H (corresponding to 08/02/2021G)
Ahmed Abdulwahab Badawi	Secretary	Saudi	-	-	N/A	N/A	N/A	N/A	25/11/1442H (corresponding to 05/07/2021G)

Source: Company or EEC

(1) Ownership percentages are rounded based on the information contained in Tadawul website as at July 1, 2021G.

(2) Dates listed in this table are the dates of appointment in the current period of the Board of Directors. The biographies of the Directors in Section 5-1-3 (**Biographies of the Directors and the Secretary**) of this Circular detail the dates of their appointment, whether to the Board of Directors or any other position.



## 5-1-2 Responsibilities of the Board of Directors

EEC is supervised by a Board of Directors consisting of highly experienced persons. The Board of Directors is vested with full powers to manage EEC's business and oversee EEC's affairs. The Board of Directors delegates responsibility for overall day-to-day management of EEC to EEC's Senior Management.

Some powers are delegated to the Board of Directors Committees, consisting of the Audit Committee, the Nomination and Remuneration Committee, and the Executive Committee (referred to hereinafter collectively, the "**Committees**"). Pursuant to EEC's internal governance regulation approved by the General Assembly, the Board of Directors may form Board committees with specific powers described in their charters.

The responsibilities of the Board of Directors, Chairman and Secretary are summarized as follows:

### A) Board of Directors

Without prejudice to the powers conferred on the General Assembly, the Board shall be vested with full powers to manage the business and affairs of EEC and draw up the general policy to achieve the purpose for which it was established. To this end, the Board may design its policies, determine its investments, supervise its business and funds, and manage its affairs inside and outside the KSA. In addition, the Board may represent EEC in its relations with third parties, government entities, all private bodies and entities, companies, and institutions of all kinds. The Board shall also have the right to sign all types of contracts, documents, and instruments, including without limitation, memorandums of incorporation and articles of association of companies in which EEC holds shares and all amendments and annexes thereto, along with amendment decisions and partners' resolutions, including on the increase and decrease of capital and the sale, purchase, and assignment of interests and shares. The Board may also enter into government and private tenders; sell and purchase, convey and accept conveyance, pay the price, mortgage and remove and accept the mortgage of EEC lands, real estate, interests, shares and assets, including EEC's movables and facilities; merge, divide, sort and receive instruments; waive the right as to any shortage of space; receive, hand over, rent, and lease; sign, renew, revoke, and terminate lease contracts; receive and pay; sell and buy interests and shares in companies in which the Company holds shares; buy interests and shares in other companies; attend partners' assemblies and general assemblies, vote on their resolutions and record objections and reservations; and take all necessary actions for companies in which the Company invests or holds shares in terms of modification, merger, liquidation, purchase, sale, and assignment; appoint and dismiss Executives and employees as well as determine their salaries and remuneration. The Board may also open accounts and credits; withdraw and deposit with banks with the right to deputize others to do so; approve withdrawals and electronic deposits with banks with the right to deputize others to do so; issue bank guarantees, sign all papers, documents, checks, loan agreements, guarantees and securities, and all banking transactions, including promissory notes; open and close investment portfolios, make transfers between investment portfolios, and buy and sell shares and securities; and appoint and lay off staff and employees, apply for visas, recruit workforce from outside the KSA, contract with them, determine their salaries and remuneration, issue residence authorization cards (Iqamas), and transfer and waive sponsorships. The Board of Directors may conclude loans of any kind with government financing bodies, funds, and institutions, whatever the value and term of the loans are, provided their terms do not exceed the expiry date of the Company's term, and may enter into loans of any kind, whatever the value and terms of the loans are, provided their terms do not exceed the expiry date of EEC's term. In the above cases, the Board may provide guarantees of any kind, absolve EEC's debtors from their obligations at the Board's discretion, inter alia, in the event that claiming these obligations is futile or if the cost of the claim is higher than collection of the obligation and other cases, as required by the interest of EEC.

The Board may provide financial support to any of the Subsidiaries or associates, as well as the companies in which EEC holds shares in the value and manner the Board deems appropriate. In addition, it may provide collaterals for loans and credit facilities of various kinds obtained by any of the Subsidiaries, associates, or companies in which EEC holds shares, pro rata to EEC's ownership therein.

The Board may, within the limits of its competencies, powers and authorities, delegate or authorize one or more of the Directors or third parties to carry out specific assignment(s), or perform certain actions, and may also cancel this delegation or authorization. It should be noted that no changes are expected in the Board functions, powers, and authorities as a result of the debt conversion, as the amendments that would be proposed to EEC's Bylaws as a result of increasing its capital through the debt conversion will not include changes to the Board powers.

### B) Chairman

The Chairman shall have the authority to call for a Board of Directors meeting; preside over Shareholders' general assemblies; represent EEC in its relations with third parties, and government, official and private entities; file claims and lawsuits; submit pleadings and defenses; hear and respond to claims; settle; deny; reconcile; litigate; provide clearances; accept and reject judgments; discharge; request and lift travel bans; request foreclosure and enforcement; request arbitration; appoint and dismiss experts, consultants and arbitrators; challenge the reports of experts and arbitrators; request the enforcement of judgments and reject, deny,

and object to them; appeal judgments; seek reconsideration; annotate judgment instruments, request restitution and pre-emption; request the dismissal of the judge; request the enforcement of judgments, object to such judgments, and receive the proceeds from enforcement of these judgments. The Chairman may sign agreements and deeds before the notary public and official authorities; receive amounts by checks in the name of EEC; receive instruments of judgments, request dismissal of judges; lodge impleader and intervention claims before all the Shariah, Administrative (the Board of Grievances), Commercial, and Labor courts, and before financial and banking dispute committees and offices for the settlement of commercial and banking securities disputes, all other judicial committees, the Control and Investigation Board, and Bureau of Investigation and Public Prosecution; and have recourse to and sign before SAGIA and ECA, enter into tenders and receive forms. The Chairman may also sell and purchase; convey and accept conveyance; pay the price; mortgage, and remove and accept mortgages; sign and renew lease contracts; receive the rent, receive and hand over; have recourse to all relevant authorities; complete all necessary procedures; and sign such documents as may be required. The Chairman also has the right to sign all types of contracts, documents and instruments, including without limitation, memorandums of incorporation of companies in which EEC is a shareholder or holds shares, amendment decisions and partners' resolutions before the notary public, including with regards to the sale, purchase, and assignment of interests and shares and the capital increase and decrease in these companies; sign all EEC's contracts with third parties; amend management-related items; engage in entry and exit of partners; enter into existing companies; establish new companies; buy and sell interests and shares; pay and receive the price; sell interests and shares and receive value and profits; and open and close branches of EEC. The Chairman has also the authority to sign loan agreements, guarantees and securities; sign bills of exchange, promissory notes, and checks; open and close accounts with banks in the Company's name; authorize others; open credits, and withdrawals and deposits with banks; issue bank guarantees; sign all papers, documents, checks and all banking transactions, including opening and closing investment portfolios; appoint and lay off staff and employees, determine their salaries and remuneration, apply for visas, recruit workforce from outside the KSA, contract with them, issue residence authorization cards (Iqamas), and transfer and waive sponsorships. The Chairman may appoint agents, lawyers, consultants, and arbitrators on behalf of EEC and issue powers of attorney on its behalf. The Chairman may delegate or authorize one or more of the Directors or third parties to carry out specific assignment(s), and may cancel this authorization.

### C) Secretary

The Secretary of the Board shall be responsible for recording and keeping the Board's deliberations, resolutions, and directives in Board meeting minutes, in addition to exercising other functions entrusted to it by the Board of Directors.

## 5-1-3 Biographies of Directors and The Secretary

The experience, qualifications, and the current and other positions of each of the Directors and the Secretary of the Board of Directors are set out below:

### A) Mr. Jamal Majid Khalfan Bin Theniyeh, Chairman

Mr. Jamal Majid Khalfan Bin Theniyeh, 62 years old, EEC Director since 2017. He currently occupies the following positions:

- Chairman, Emaar Properties PJSC, an Emirati joint stock company operating in real estate development, since 2020G. Note that he held the position of Vice Chairman of Emaar Properties PJSC since 2012G.
- Investments Committee Member, Emaar Properties PJSC, an Emirati joint stock company operating in real estate development, since 2019G.
- Investments Committee member, Emaar Development PJSC, a listed Emirati joint stock company operating in real estate development, since 2019G.
- Director, Ports Development Company (PDC), a closed joint stock company operating in transport industry, since 2018G.
- Director, Emaar Development PJSC, a listed Emirati joint stock company operating in real estate development, since 2019G.

He received a B.A. in Public Administration from United Arab Emirates University, UAE, in 1981G.

### B) Mr. Abdullah Ibrahim Sulaiman Al Howaish, Vice Chairman

Mr. Abdullah Ibrahim Sulaiman Al Howaish, 59 years old, EEC Director since 2020G. He currently occupies the following positions:

- Managing Director and CEO, Aseer Trading, Tourism & Manufacturing, a listed joint stock company operating in investment, since 2019G.
- Investment and Finance Committee Member, Aseer Trading, Tourism & Manufacturing, Agriculture, Real Estate and Contracting, a listed joint stock company operating in investment, since 2019G.
- Vice Chairman, Halwani Bros, a Saudi listed joint stock company operating in food industries, since 2019G.

- Executive Committee Member, Halwani Bros, a Saudi listed joint stock company operating in food industries, since 2019G.
- Vice Chairman, Halwani Bros - Egypt, an unlisted Egyptian joint stock company operating in food industries, since 2019G.
- Executive Committee Member, Halwani Bros - Egypt, an unlisted Egyptian joint stock company operating in food industries, since 2019G.
- EEC Audit Committee Member, since 2019G.
- Vice Chairman, Alessa Industries Co., a closed joint stock company operating in industry, since 2019G.
- Chairman of the Executive Committee, Alessa Industries Co., a closed joint stock company operating in industry, since 2019G.
- Remuneration and Nomination Committee Member, Alessa Industries Co., a closed joint stock company operating in industry, since 2019G.
- Director, SEDCO Capital, a closed joint stock company operating in investment, since 2019G.
- Chairman, Amlak International for Real Estate Financing, a listed joint stock company operating in real estate finance, since 2018G.
- Chairman of the Executive Committee, Amlak International for Real Estate Financing, a listed joint stock company operating in real estate finance, since 2013G.

He received a B.A. in Economics, King Abdulaziz University, KSA, in 1985G.

#### C) Mr. Mohammad Nabil Mohammad Hassan Hefni, Director

Mr. Mohammad Nabil Mohammad Hassan Hefni, 42 years old, EEC Director since 2020G. He currently occupies the following positions:

- Director, Samir Abbas Hospital Company, a joint stock company operating in advanced medical services, since 2019G.
- Audit Committee Member, Samir Abbas Hospital Company, a joint stock company operating in advanced medical services, since 2019G.
- Nomination and Remuneration Committee Member, Samir Abbas Hospital Company, a joint stock company operating in advanced medical services, since 2019G.
- Director, Defaf United for Logistics, a limited liability company operating in logistics services, since 2017G.
- Director, Al Manakhah Real Estate Development Company, a joint stock company operating in real estate development, since 2016G.
- CEO, KUN Investment Holding Co., a holding company operating in investment, since 2013G.

He received a B.A. in Architectural Engineering from King Fahd University of Petroleum and Minerals, KSA, in 2002G and an MBA from King Fahd University of Petroleum and Minerals, KSA, in 2017G.

#### D) Mr. Arif Abdullah Abdurrahman Alharmi Albastaki, Director

Mr. Arif Abdullah Abdurrahman Alharmi Albastaki, 47 years old, EEC Director since 2020G. He currently occupies the following positions:

- Director, Aramex, a listed Emirati joint stock company operating in logistics services, since 2019G.
- Strategic Committee Member, Aramex, a listed Emirati joint stock company operating in logistics services, since 2019G.
- Chairman, Amlak Finance & Real Estate Investment, Egypt, a closed joint stock company operating in real estate finance and investment, since 2010G, noting that he has been a director in this company since 2007G.
- CEO, Amlak Finance, an Emirati joint stock company operating in real estate finance, since 2007G.

He received an MIBM from University of Wollongong in Dubai, UAE, in 2001G.

#### E) Mr. Osama Omar Saeed Abdullah Barayan, Director

Mr. Osama Omar Saeed Abdullah Barayan, 39 years old, EEC Director since 2020G. He currently occupies the following positions:

- Investment Manager, Iqra International Investment Company, a closed joint stock company operating in investment, since 2020G.
- Head of Financial Investments, Methaq Company, a holding limited liability company operating in investment, since 2017G.

- VP of MENA Investments, SEDCO Capital, a closed joint stock company licensed by CMA, operating in asset management, since 2011G.

He received a B.A. in Accounting from King Fahd University of Petroleum and Minerals, KSA, in 2006G and a M.A. in Financial Management from Monash University, Australia, in 2009G.

#### **F) Mr. Falih Moutasim Faleh Hajjaj, Director**

Mr. Falih Moutasim Faleh Hajjaj, 31 years old, EEC Director since 2020G. He currently occupies the following positions:

- CEO, Amam Real Estate Company, a subsidiary of Dallah Al-Baraka, a limited liability company operating in management and development of real estate assets, since 2019G.
- Partner and CEO, Moutasim Faleh Hajjaj & Partners Co., a limited liability company operating in managing private family assets, since 2015G.

He received a B.A. in Economics and Real Estate Development from Champaign University, USA, in 2012G and a Diploma in Real Estate and Development from Harvard Business School, USA, in 2017G.

#### **G) Mr. Ahmed Yousef Mohamed Saeed Boshnak, Director and Managing Director**

Mr. Ahmed Yousef Mohamed Saeed Boshnak, 43 years old, EEC Director since 2020G and EEC Managing Director since 2021G. He currently occupies the following positions:

- Director, Al Rai Pharma, a limited liability company operating in the pharmaceutical industry, since 2014G.
- Executive Partner, Cornerstone Financial Consultants, a limited liability company operating in consulting, since 2013G.

He received a B.A. in Electrical Engineering from King Abdulaziz University, KSA, in 2001G and an MBA from the Wharton School of the University of Pennsylvania, USA, in 2010G.

#### **H) Mr. Badr Hisham Ahmed Yousef Ali Reda, Director**

Mr. Badr Hisham Ahmed Yousef Ali Reda, 41 years old, EEC Director since 2020G. He currently occupies the following positions:

- Executive Director, Kun International Sports, a Saudi limited liability company operating in sports and fitness, since 2019G.

He received a B.A. in Economics from Brown University, USA, in 2002G and a M.A. in Management from Liverpool University, UK, in 2009G.

#### **I) Mr. Hani Othman Baothman, Director**

Mr. Hani Othman Baothman, 52 years old, EEC Director since 2021G. He currently occupies the following positions:

- Chairman, Sidra Capital, a company licensed by CMA, operating in investment asset management and consulting, since 2020G.
- Director, Uptown Jeddah Company, a closed joint stock company operating in the field of investment asset management and advising, since 2020G.
- Chairman, Inoks Capital, a Swiss company operating in asset management, since 2014G.
- Vice Chairman, Al Murjan International Holding Limited, an investment company licensed by DIFC, operating in investment, since 2011G.
- Director, Al Khozama Management Company, a Saudi closed joint stock company, operating in real estate development, since 2010G.

He received a B.A. in Mechanical Engineering from the University of Reading, UK, in 1995G, and an MBA from University of London - Imperial College Business School, UK, in 2001G.

#### **J) Mr. Ahmed Abdulwahab Badawi, Secretary of the Board of Directors**

Mr. Ahmed Abdulwahab Badawi, 49 years, EEC Board Secretary since 2021G. He currently occupies the following positions:

- chief executive officer of governance, risk and compliance, since 2021G.

He received a B.S. in Science-Financial Management from King Fahad University of Petroleum and Minerals, KSA, in 1996G.

## 5-2 Senior Management

### 5-2-1 Overview of Senior Management

Senior Management comprises qualified and experienced members with necessary knowledge and expertise to run EEC's business in line with the objectives and directives of the Board and the stakeholders. EEC has been successful in retaining its Senior Management team, developing qualified employees and promoting them to senior positions in EEC.

### 5-2-2 Biographies of Senior Executives

The experience, qualifications and the current and other positions of each Senior Executive are set out below:

#### A) Mr. Ahmed Yousef Mohamed Saeed Boshnak, Director and Managing Director

See Section 5-1-3 (Summary Biographies of the Directors and the Secretary) of this Circular.

#### B) Mr. Cyril Piaia, CEO (from 24/01/1443H (corresponding to 01/09/2021G))

Mr. Cyril Piaia, 47 years old, will join EEC on 24/01/1443H (corresponding to 01/09/2021G). He will occupy the position of CEO.

He received M.A. in Engineering from Ecole Centrale, Lille, France, in 1998G.

#### C) Mr. Eyad Abdulrahim, CFO

Mr. Eyad Abdulrahim, 49 years old, joined EEC in 2019G. He occupies the position of CFO.

He received a B.A. in Accounting and Financial Management from Yarmouk University, the Hashemite Kingdom of Jordan, in 1993G, and an MBA from the University of Wollongong, UAE, in 2008G.

#### D) Mr. Ahmed Abdulwahab Badawi, Chief Executive Officer of Governance, Risk and Compliance and Secretary of the Board of Directors

See Section 5-1-3 (Summary Biographies of the Directors and the Secretary) of this Circular.

#### E) Mr. Yousef Bin Nasser Alsaegh, COO

Mr. Yousef Bin Nasser Alsaegh, 59 years old, joined EEC in 2021G. He occupies the position of COO.

He received a B.A. in Engineering Sciences from University of California, Riverside, USA, in 1987G.

#### F) Ms. Ar Lida Arif, Chief Development Officer

Ms. Ar Lida Arif, 57 years old, joined EEC in 2021G. She occupies the position of Chief Development Officer.

She received a B.A. in Civil Engineering from Syracuse University, USA, in 1985G, and a M.A. in Civil Engineering (Geotechnical Engineering) from the University of California, Berkeley, USA, in 1986G.

#### G) Mr. Tareq Mahmoud Khan, Chief Marketing Officer

Mr. Tareq Mahmoud Khan, 38 years old, joined EEC in 2021G. He occupies the position of Chief Marketing Officer.

He received a B.S. in Science-Marketing Management from King Fahad University of Petroleum and Minerals, KSA, in 2007G, and a M.A. in Business Management from the University of Business and Technology, KSA, in 2010G.

#### H) Mr. Ali Bin Mohammed Aljarboua, Chief Legal Officer

Mr. Ali Bin Mohammed Aljarboua, 40 years old, joined EEC in 2021G. He occupies the position of Chief Legal Officer.

He received a B.A. in Fundamentals of Religion from Al Qassim University, KSA, in 2005G, and a M.A. in Corporate Finance and Investment law from University of Westminster, UK, in 2012G.

#### I) Mr. Farris Hisham Alsawwaf, Chief Strategy and Investment Officer

Mr. Farris Hisham Alsawwaf, 40 years old, joined EEC in 2021G. He occupies the position of Chief Strategy and Investment Officer.

He received a B.A. in Science-Management Information Systems from King Fahad University of Petroleum and Minerals, KSA, in 2003G.

## 6. Legal Information

### 6-1 Directors' Declarations

The Directors declare that:

- The debt conversion is not in violation of the relevant laws and regulations in the Kingdom of Saudi Arabia.
- The debt conversion does not prejudice any of the contracts or agreements to which EEC is a party.
- The methodology used to determine the new share price by accepting the offer submitted by the PIF is fair, reasonable, and serves the best interest of the Shareholders and all the related parties in a fair way.
- There is no change or planned change to the executive management of EEC as a result of the debt conversion. In this regard, it should be noted that the Managing Director office term was extended for three months which will expire on 05/03/1443H (corresponding to 11/10/2021G) and the appointment of the CEO was approved and announced on the Exchange website. The Group CFO will also exit EEC on 20/12/1442H (corresponding to 30/07/2021G).
- All material legal information relating to EEC has been disclosed in this Circular.
- This section includes all the material legal information related to the debt conversion documents that EEC's Shareholders must take into consideration to make a well-informed voting decision.
- There is no other material legal information not included in this section, omission of which makes other statements therein misleading.

### 6-2 Details of Debt Transfer Documents

#### 6-2-1 Loan Agreement

EEC entered into a loan agreement with MOF on 20/06/1432H (corresponding to 23/05/2011G), as amended by the supplementary agreement signed by the two parties on 17/08/1436H (corresponding to 04/06/2015G). Pursuant to the Loan Agreement, MOF provided to EEC a loan of five billion Saudi Riyals (SAR 5,000,000,000) with an annual commission calculated as per the prevailing commercial rates, for the purpose of developing King Abdullah Economic City located in Rabigh, KSA.

EEC originally was bound to repay MOF loan in seven (7) annual installments as of 14/08/1436H (corresponding to 01/06/2015G). However, based on the request submitted by EEC before the due date of any of the payments to MOF, MOF has rescheduled the amount of MOF loan so that it is payable in seven (7) annual installments as of 09/10/1441H (corresponding to 01/06/2020G), with an accrued commission paid annually until 15/12/1447H (corresponding to 01/06/2026G). Nevertheless, according to the request of EEC and before any of the payments due was made to MOF, MOF issued a 'Conditional Approval for Rescheduling' on 07/11/1442H (corresponding to 17/06/2021G), so that the due rescheduled amount to be paid will be two billion five hundred thirty million six hundred thirty-one thousand one hundred sixty (SAR 2,530,631,160) payable in seven (7) annual installments as of 24/11/1445H (corresponding to 01/06/2024G), with an accrued commission paid annually until 29/01/1452H (corresponding to 01/06/2030G), provided that debt conversion is completed and an amendment to the Loan Agreement between MOF and EEC is concluded. In the event of failure to complete the debt conversion, the due rescheduled amount to be paid will be five billion three hundred sixty three million nine hundred sixty four thousand and five hundred Saudi Riyals (SAR 5,363,964,500) payable in seven (7) annual installments as of 24/11/1445H (corresponding to 06/01/2024G), with an accrued commission paid annually until 29/01/1452H (corresponding to 01/06/2030G), at seven hundred sixty million six hundred sixty thousand seven hundred and fifty Saudi Riyals (SAR 760,660,750) per installment, except the last payment which will end in June 2030G and amounts to eight hundred million Saudi Riyals (SAR 800,000,000).

The table below shows in detail the rescheduling mechanism of MOF loan:

**Table 6-1: The rescheduling mechanism of MOF loan**

Maturity Date	Payments in the event of failure of completion of the debt conversion (SAR)	Payments in the event of completion of the debt conversion (SAR)
24/11/1445H (corresponding to 01/06/2024G).	760,660,750	361,500,000
05/12/1446H (corresponding to 01/06/2025G).	760,660,750	361,500,000
15/12/1447H (corresponding to 01/06/2026G).	760,660,750	361,500,000
26/12/1448H (corresponding to 01/06/2027G).	760,660,750	361,500,000

Maturity Date	Payments in the event of failure of completion of the debt conversion (SAR)	Payments in the event of completion of the debt conversion (SAR)
8/1/1450H (corresponding to 01/06/2028G).	760,660,750	361,500,000
19/1/1451H (corresponding to 01/06/2029G).	760,660,750	361,500,000
29/1/1452H (corresponding to 01/06/2030G).	800,000,000	361,631,160
<b>Total amount</b>	<b>5,363,964,500</b>	<b>2,530,631,160</b>

The Loan Agreement includes a representation that EEC will provide collateral to secure the entire loan amount by mortgaging a land with an area of twenty-four million seven hundred twenty-four thousand four hundred twenty-three (24,724,423) square meters, comprising Plots Nos. (2, 3, 4, 5, 6 and 7) as set out in Deeds Nos. (2, 3, 4, 5, 6 and 7 dated 24/12/1431H (corresponding to 30/11/2010G)) (herein referred to as "Mortgaged Lands"), being part of the lands owned by EEC in King Abdullah Economic City in Rabigh, with a total area of 168,182,977 square meters. This mortgage will continue as EEC's obligation to MOF under the Loan Agreement, regardless of the transfer of the Transferred Amount to PIF under the Loan Transfer Agreement. On 07/11/1442H (corresponding to 17/06/2021G) at EEC's request, the MOF issued a letter of the MOF's conditional approval for rescheduling, under which removal of this mortgage can be considered. However, there is currently, at the date of this Circular, no agreement between EEC and MOF or PIF regarding removal of the mortgage of these lands or part thereof in relation to the Transferred Amount. Moreover, MOF or PIF may refuse to remove the mortgage of these lands or part thereof in proportion to the decrease in MOF loan due to the transfer of the Transferred Amount under the Loan Transfer Agreement. The Loan Transfer Agreement and the Subscription and Debt Conversion Agreement were entered into to transfer part of MOF loan in the amount of two billion eight hundred thirty-three million three hundred thirty-three thousand three hundred forty Saudi Riyals (SAR 2,833,333,340) from the last payments payable to MOF that are still outstanding and unpaid by EEC under the Loan Agreement (i.e. the value of the debt as defined in this Circular) to PIF, for the purpose of converting the debt to shares to be owned by PIF in EEC's capital.

### 6-2-2 Loan Transfer Agreement

MOF and PIF entered into a partial transfer agreement on 07/08/1442H (corresponding to 20/03/2021G), pursuant to which part of MOF Loan, in the amount of two billion eight hundred thirty-three million three hundred thirty-three thousand three hundred forty Saudi Riyals (SAR 2,833,333,340) from the last payments that are payable to MOF and are still outstanding and unpaid by EEC under the Loan Agreement, (i.e., the Transferred Amount) will be transferred to PIF, so that PIF will supersede MOF in relation to the Loan Agreement in terms of the rights and obligations pertaining to the Transferred Amount, and entitlement to the Transferred Amount that will be immediately payable on the Effective Date of the Loan Transfer Agreement. The Loan Transfer Agreement will be effective automatically and concurrently with EEC Extraordinary General Assembly's approval of the debt conversion. As such, PIF will be the Relevant Creditor in connection with the debt conversion. All New Shares will be issued to PIF and will be deposited in PIF's portfolio within five (5) business days prior to the Completion Date. EEC submitted its approval for the transfer and the entitlement of the Transferred Amount on 17/08/1442H (corresponding to 30/03/2021G). This transfer does not prejudice any of EEC's obligations under the terms and conditions of the Loan Agreement, and the Loan Agreement shall be effective with all its terms and conditions with respect to all obligations and rights that have not been transferred to PIF under the Loan Transfer Agreement. The remaining payments owed by EEC to MOF will be rescheduled and the release of part of the lands mortgaged by MOF will be considered as per MOF's Conditional Approval for Rescheduling, after EEC submits its new business plan to the MOF. It should be noted that EEC is contracting a consulting firm to assist in developing its new business plan.

### 6-2-3 Subscription and Debt Conversion Agreement

EEC and the Substantial Shareholders entered into the Subscription and Debt Conversion Agreement with PIF (conditional on EEC Extraordinary General Assembly's approval) on 12/01/1442H (corresponding to 31/08/2020G) (conditional on EEC Extraordinary General Assembly's approval) (referred to hereinafter as the "**Subscription and Debt Conversion Agreement**"). Under this agreement, it was agreed to increase EEC's capital by converting the debt into New Shares of EEC to be allocated to PIF. The completion of the debt conversion and allocation of New Shares to PIF pursuant to this agreement will constitute the final clearance and settlement between EEC and PIF in respect of the Transferred Amount. As such, EEC will be held harmless against any relevant future claims regarding the Transferred Amount. The following is a summary of the most important terms of the Subscription and Debt Conversion Agreement:



**Table 6-2: Summary of the Subscription and Debt Conversion Agreement**

Item	Summary
Parties	<ul style="list-style-type: none"> <li>EEC (as the Company whose debt is to be converted)</li> <li>PIF (as a Subscriber to the New Shares issued against debt conversion)</li> <li>Current Substantial Shareholders (as guarantors of EEC's obligations and guarantees), namely: <ul style="list-style-type: none"> <li>Dayim Modern Real Estate Management Co.</li> <li>ME Royal Capital LLC</li> <li>ME Partners Co. LLC</li> <li>ME Strategic Investments LLC</li> <li>ME Holdings LLC</li> <li>Emaar Middle East LLC</li> </ul> </li> </ul>
Number of New Shares	Two hundred eighty-three million three hundred thirty-three thousand three hundred thirty-four (283,333,334) ordinary shares, with a nominal value of ten Saudi Riyals (SAR 10) per share.
Issue Price	The issue price was determined based on the nominal value of the New Shares, i.e., ten Saudi Riyals (SAR 10) per share.
Conditions Precedent to Completion	<p>To complete the debt conversion and PIF's subscription to the New Shares, a number of conditions shall be fulfilled. Below is a summary of the key conditions:</p> <ul style="list-style-type: none"> <li>The approval of EEC's Extraordinary General Assembly for the debt conversion and amendment of EEC's Bylaws shall be obtained.</li> <li>The approval of ECA for the debt conversion shall be obtained.</li> <li>The approval of CMA and the Exchange for the debt conversion shall be obtained.</li> <li>The Loan Transfer Agreement shall be concluded.</li> <li>Written approvals of EEC's creditor banks regarding the debt conversion shall be obtained. PIF may, by written notice and at any time prior to 15/10/1442H (corresponding to 27/05/2021G) (referred to hereinafter as the "<b>Longstop Date</b>") exempt EEC from this requirement, thus allowing EEC and Substantial Shareholders to complete the Subscription and Debt Conversion Agreement, regardless of the approvals of the creditor banks. It should be noted that such written approvals were obtained from the creditor bank in relation to debt conversion.</li> <li>There is no material default of the obligations and guarantees of EEC and Substantial Shareholders under the Subscription and Debt Conversion Agreement, or any material change in circumstances that would adversely affect the financial position or results of operations of EEC or any of its Subsidiaries, on or prior to the Completion Date.</li> <li>If completion occurs on a date by which PIF was unable to nominate three (3) persons to membership of EEC's Board of Directors in preparation for their election by the Ordinary General Assembly, EEC's Board of Directors must obtain letters of resignation submitted by three (3) directors, including a non-executive director, provided that these directors are subsequently agreed upon between the parties. EEC's Board of Directors shall hold a meeting to issue its resolution appointing the persons nominated by PIF in writing at any time prior to the Board meeting. This appointment shall be effective as of the Completion Date until the end of the current period of EEC's Board, in accordance with EEC's Bylaws and related regulations regarding Board vacancy. PIF may, by written notice and at any time prior to the Longstop Date, exempt EEC from this requirement.</li> </ul>
Post-Completion Conditions	<p>A number of conditions have been agreed to be fulfilled within six (6) months from the Completion Date (i.e., the date on which the Completion Obligations set forth below are met) (referred to hereinafter as the "<b>Completion Date</b>"). Below is a summary of the key conditions:</p> <ul style="list-style-type: none"> <li>Memorandums of incorporation of EEC's Subsidiaries shall be amended in compliance with the new Companies Law.</li> <li>EEC's Bylaws shall be amended in compliance with the applicable laws.</li> <li>EEC's Commercial Registration shall be amended so as to account for EEC's capital post debt conversion.</li> <li>ECA's license shall be amended so as to account for EEC's capital post debt conversion.</li> <li>A number of expired certificates and licenses of EEC and its Subsidiaries shall be renewed.</li> <li>Sufficient evidence that the capital increase has been completed shall be furnished to Alinma Bank, within fifteen (15) days from the Completion Date.</li> <li>The amended Bylaws of EEC shall be published on the website of the Ministry of Commerce.</li> </ul>



Item	Summary
Completion Obligations	<p>Following the fulfillment of the Conditions precedent, the parties shall fulfill the following obligations:</p> <ul style="list-style-type: none"> <li>An extraordinary general assembly of the Company shall be duly convened, at which: <ul style="list-style-type: none"> <li>the Board shall present to the extraordinary general assembly the written statement from an auditor, which states the origin and amount of the Investor Loan, such statement being signed by the auditor and the directors;</li> <li>the extraordinary general assembly shall resolve to approve the Capital Increase (including the relevant amendment of its bylaws) and issue the New Shares;</li> <li>the Company shall submit to the CMA copies of the extraordinary general assembly minutes and results; and</li> <li>the Company shall allot all the New Shares to the PIF and deposit the New Shares in the investment portfolio account of the PIF as designated in writing to the Company by it no later than five (5) Business Days prior to the Completion Date.</li> <li>the extraordinary general assembly shall approve all related party agreements to which the Company is a party, including re-approve any agreements that were previously approved by the general assembly of the Company (in accordance with the current provisions of Article 71 of the Companies Law); and</li> <li>the extraordinary general assembly shall pass any other resolutions as may be reasonably required or advisable to carry out the Company's obligations under and give full force and effect to the provisions of this agreement.</li> </ul> </li> <li>The Company Secretary shall be instructed to file all appropriate resolutions, amendments to the bylaws of the Company and forms with the relevant Governmental Authorities within the time limits prescribed for filing by Law for each of them and obtain a new commercial registration certificate of the Company reflecting the Capital Increase.</li> <li>The Company shall announce the results of the extraordinary general meeting on the regulatory announcement platform of the Tadawul.</li> <li>The Company shall initiate and procure that registration for admission to listing of the New Shares and admission to trading of the New Shares on Tadawul shall occur and become effective as soon as reasonably practicable.</li> <li>The Company shall make all other required announcements, in accordance with applicable Law and the provisions of this agreement.</li> </ul>
EEC's Guarantees	<p>EEC provided PIF with a number of guarantees related to EEC and its Subsidiaries on the date of the Subscription and Debt Conversion Agreement, and these guarantees are renewed and apply immediately before the Completion Date, except as in connection with matters that have been disclosed to PIF under the closure letter which includes the disclosures related to the guarantees which should be submitted by EEC to the PIF upon Completion. Below is a summary of the key guarantees:</p> <ul style="list-style-type: none"> <li>Basic guarantees of ability, power, share ownership and solvency.</li> <li>Guarantees related to the financial statements, including providing PIF with all relevant financial statements that reflect a true and honest portrayal of EEC's and its Subsidiaries' position.</li> <li>Guarantees related to debts, including the absence of any default or circumstances that would entitle any party to claim any payments related to the debts of EEC or its Subsidiaries.</li> <li>Guarantees related to taxes, including payment of all taxes incurred by EEC and its Subsidiaries, and the absence of any dispute or legal liability with any government entity.</li> <li>Guarantees related to laws and advertisements, including the issuance of all necessary licenses and approvals for EEC's and its Subsidiaries' business, along with EEC's compliance with all CMA's requirements.</li> <li>Guarantees related to properties and real estate, including that all deeds of properties located in King Abdullah Economic City are registered in the name of EEC or its Subsidiaries, and that there are no disputes pertaining to the properties of EEC or its Subsidiaries.</li> <li>Guarantees related to the agreements, including that the conclusion of the Subscription and Debt Conversion Agreement will not lead to exempting any contracting party with EEC or its Subsidiaries from any material obligations or the occurrence of any material damage to EEC or its Subsidiaries.</li> <li>Guarantees related to intellectual property rights, including ownership by EEC or its Subsidiaries of all intellectual property rights as may be necessary to carry out their business.</li> <li>Guarantees related to the environment, including compliance with any environmental laws related to pollution, protection of public health, harmful chemicals, and others, and the absence of any current pollution that may lead to (actual or potential) damage to EEC or its Subsidiaries.</li> </ul>

Item	Summary
EEC's Guarantees (Continued)	<ul style="list-style-type: none"> <li>Guarantees related to employees and their incentives, including compliance with all labor regulations, together with a confirmation that employees are registered with GOSI and Saudization requirements are satisfied.</li> <li>Guarantees related to disputes and liabilities, including the absence of any material disputes in which EEC or its Subsidiaries are a party.</li> <li>Guarantees related to insurance, including that all insurance policies are valid and enforceable.</li> <li>Guarantees related to information, including that all documents and information provided are true and accurate.</li> <li>Guarantees related to data protection, including that all laws and regulations relating to data protection are complied with, privacy is maintained, and communications are recorded.</li> </ul>
EEC's Pledges to Compensate PIF	<p>EEC undertakes to PIF that it will compensate PIF for any losses resulting from:</p> <ul style="list-style-type: none"> <li>Any violation in connection with EEC's guarantees or resulting from any liabilities and guarantees related to taxes imposed by the Zakat, Tax and Customs Authority, or pertaining to any dispute arising before the Completion Date attributed to EEC's properties, for a maximum of three (3) years as of the Completion Date. In no event shall the total liability exceed an amount of seven hundred eight million three hundred thirty-three thousand three hundred thirty-five Saudi Riyals (SAR 708,333,335).</li> <li>Any violation related to EEC's guarantees related to duly incorporating EEC, performance ability, executing the Subscription and Debt Conversion Agreement, obtaining the necessary approvals from companies and government entities, the powers and shareholding that qualify EEC to conclude this agreement; and relating to the Subsidiaries' violation of Article 180 of the former Companies Law or Subsidiaries' non-compliance with Article 181 of the current Companies Law; any fines, penalties or sanctions imposed on Subsidiaries by any government entity in relation to health or safety; any liabilities related to taxes imposed by the Zakat, Tax and Customs Authority; any ECC violation in relation to Article 71 of the Companies Law; and any fines, penalties or sanctions imposed on EEC by any government entity for non-compliance with Paragraph 6 of Article 43 of the Companies Law, for the absence or unenforceability of any of the relevant title deeds or certificates of the ECC's properties or properties of its Subsidiaries that EEC claims to own, for any pollution or repairs related to soil or sea water, in the event that it occurs on or prior to the Completion Date, for the post-completion terms and conditions, and for any claims filed by third parties regarding the debt conversion and PIF's subscription to the New Shares, for an unlimited period of time. In no event shall the total liability exceed an amount of two billion eight hundred thirty-three million three hundred thirty-three thousand three hundred forty Saudi Riyals (SAR 2,833,333,340), except for tax-related guarantees.</li> </ul>
Substantial Shareholders' Guarantees	<p>The Substantial Shareholders provided PIF with a number of guarantees related to EEC and its Subsidiaries on the date of the Subscription and Debt Conversion Agreement, and these guarantees are renewed and apply immediately before the Completion Date. Below is a summary of the key guarantees:</p> <ul style="list-style-type: none"> <li>Basic guarantees of ability, powers granted, share ownership and solvency.</li> <li>Guarantees related to the financial statements, including providing PIF with all relevant financial statements that reflect a true and accurate portrayal of EEC's and its Subsidiaries' position.</li> <li>Guarantees related to debts, including the absence of any default or circumstances that would entitle any party to claim any payments related to the debts of EEC or its Subsidiaries.</li> <li>Guarantees related to taxes, including payment of all taxes incurred by EEC and its Subsidiaries, and the absence of any dispute or legal liability with any government entity.</li> <li>Guarantees related to laws and advertisements, including the issuance of all necessary licenses and approvals for EEC's and its Subsidiaries' business, along with EEC's compliance with all CMA requirements.</li> <li>Guarantees related to properties and real estate, including that all deeds of properties located in King Abdullah Economic City are registered in the name of EEC or its Subsidiaries, and that there are no disputes pertaining to the properties of EEC or its Subsidiaries.</li> <li>Guarantees related to disputes and liabilities, including the absence of any material disputes in which EEC or its Subsidiaries are a party.</li> </ul>

Item	Summary
Substantial Shareholders' Pledges to Compensate PIF	<p>Substantial Shareholders undertake to PIF that they will compensate PIF for any losses resulting from:</p> <ul style="list-style-type: none"> <li>Any violation in connection with Substantial Shareholders' guarantees or resulting from any guarantees and liabilities related to taxes imposed by the Zakat, Tax and Customs Authority, or pertaining to any dispute arising before the Completion Date attributed to EEC's properties, for a maximum of three (3) years as of the Completion Date. In no event shall the total liability exceed an amount of seven hundred eight million three hundred thirty-three thousand three hundred thirty-five Saudi Riyals (SAR 708,333,335).</li> <li>Any violation related to Substantial Shareholders' guarantees related to duly incorporating EEC, performance ability, executing the Subscription and Debt Conversion Agreement, obtaining the necessary approvals from companies and government entities, the powers and shareholding that qualify EEC to conclude this agreement; and relating to the Subsidiaries' violation of Article 180 of the former Companies Law or Subsidiaries' non-compliance with Article 181 of the current Companies Law; any fines, penalties or sanctions imposed on Subsidiaries by any government entity in relation to health or safety; any liabilities related to taxes imposed by the Zakat, Tax and Customs Authority; any ECC violation in relation to Article 71 of the Companies Law; and any fines, penalties or sanctions imposed on EEC by any government entity for non-compliance with Paragraph 6 of Article 43 of the Companies Law, for the absence or unenforceability of any of the relevant title deeds or certificates of the ECC's properties or properties of its Subsidiaries that EEC claims to own, if it occurs on or prior to the Completion Date, for the post-completion terms and conditions, and for any claims filed by third parties regarding the debt conversion and PIF's subscription to New Shares, for an unlimited period of time. In no event shall the total liability exceed an amount of two billion eight hundred thirty-three million three hundred thirty-three thousand three hundred forty Saudi Riyals (SAR 2,833,333,340), except for tax-related guarantees.</li> </ul>
Joint Liability	<p>Obligations and liability under the Subscription and Debt Conversion Agreement are as follows:</p> <ul style="list-style-type: none"> <li>Several liability between EEC and the Substantial Shareholders as Guarantors.</li> <li>Joint liability between Substantial Shareholders (excluding Dayim Modern Real Estate Management Co., being not part of the parent company Emaar Group, unlike other substantial shareholders) as Guarantors towards each other.</li> </ul>
Termination	<ul style="list-style-type: none"> <li>Either of the parties to the Subscription and Debt Conversion Agreement may, at any time prior to the Completion Date, terminate the agreement by a written notice to the rest of the parties.</li> <li>PIF may terminate the Subscription and Debt Conversion Agreement by a written notice to the rest of the parties in the following cases: <ul style="list-style-type: none"> <li>EEC is in material violation of any of the terms of the Subscription and Debt Conversion Agreement.</li> <li>EEC submits to PIF a final disclosure letter, which includes disclosures related to the guarantees.</li> <li>Any of the Conditions Precedent to Completion are not met, unless waived by PIF.</li> <li>There is any material and adverse change that affects EEC's business, operations, assets, liabilities, real estate, financial or commercial position, results of operations or prospects.</li> <li>A significant disclosure in the Shareholder Circular is false or misleading.</li> <li>Trading of EEC's shares on Tadawul is suspended or restricted.</li> <li>There is a significant decline in the trading price of securities in general or in EEC's shares listed on Tadawul at any time prior to the Completion Date.</li> <li>An armed conflict erupts or escalates; a terrorist event related to the KSA occurs; a state of emergency is declared by the KSA; a war or a crisis outbreaks; or there is a change in the financial, political or economic situation, in currency exchange rates, or in any restrictions in or relating to the KSA to the extent that PIF (reasonably) believes that these events would make it unfeasible to proceed with the debt conversion.</li> </ul> </li> <li>EEC may terminate the Subscription and Debt Conversion Agreement by a written notice to the rest of the parties in the event that PIF materially violates any of the terms thereof or any of PIF's basic guarantees (which include guarantees related to solvency, powers granted and ownership of shares).</li> </ul> <p>(For further details about the risks related to this Agreement, please refer to the risk factor No. (2-2-1) "<b>Risks related to the Subscription and Debt Conversion Agreement</b>" hereof).</p>
Change in the Board of Directors	<p>Unless elected by EEC's General Assembly prior to the Completion Date, PIF has the right to nominate three (3) Directors to be appointed by the Board to replace three (3) Directors who will submit their resignation from the Board on the Completion Date, provided that this appointment is presented to EEC's General Assembly for approval in accordance with EEC's Bylaws and the Companies Law.</p>
Applicable Law and Dispute Resolution	<p>The terms of the agreement are governed by the laws of the KSA, and the courts of the KSA are competent to resolve any disputes arising out of the agreement.</p>

### 6-3 Regulatory Approvals and Other Procedures Necessary to Complete The Debt Conversion

EEC will submit a request to CMA to hold an Extraordinary General Assembly as soon as EEC obtains its approval on this Circular. EEC will then call for an Extraordinary General Assembly meeting to vote on the debt conversion, provided that the second meeting shall be held one hour after the end of the time set for the first meeting if the quorum is not satisfied. The invitation, the agenda, and related documents (including the Circular) shall be announced on Tadawul website, and the invitation shall be announced and published in a daily newspaper twenty-one (21) days before the Extraordinary General Assembly meeting date. If the quorum is not satisfied in the first and second meetings, EEC will submit a request to CMA for approval to call for a third meeting of the Extraordinary General Assembly. EEC shall also obtain EEC's approval for the debt conversion.

### 6-4 Substantial Lawsuits

Except for as detailed in the following table, there are currently no litigation or claims (including any litigation pending or threatened) that could materially affect the business and financial position of EEC or its Subsidiaries. The lawsuit is considered material for EEC if it represents 5% or more of EEC's revenues for the ended financial year December 31, 2020G.

**Table 6-3: Table of Material Litigation**

#	Plaintiff	Defendant	Dispute Summary	Status	Value of Claim (SAR)
1	Rezeek Abdullah Saeed Al Gedrawy Al Tubaithi and Partners Company	Company or EEC	EEC entered into a sale contract with the plaintiff to sell fifty-seven (57) units as a settlement for several other contracts previously concluded with the plaintiff. The plaintiff requested termination of the contract and a full refund of its value due to the late delivery of the sold units, per his allegation.	The claim is pending in the General Court	34,216,537
2	Zakat, Tax and Customs Authority ("ZATCA")	Company or EEC	ZATCA issued its estimated zakat assessment for EEC for 2014G, with additional zakat claims of sixty-eight million Saudi Riyals (SAR 68,000,000). EEC objected to the issued assessment and requested reassessment, with EEC providing documents supporting its objection. Accordingly, ZATCA issued an amended assessment in which the value of zakat claims decreased to thirty-three million Saudi Riyals (SAR 33,000,000).	EEC appealed the claim before the General Secretariat of Tax Committees	33,000,000
3	Zakat, Tax and Customs Authority	Company or EEC	ZATCA issued its estimated zakat assessment for EEC for 2015G-2018G, with additional zakat claims of two hundred and fifty-four million Saudi Riyals (SAR 254,000,000). EEC objected to the issued assessment and requested reassessment. Accordingly, on 12/07/1442H (corresponding to 24/02/2021G), ZATCA issued an amended assessment in which the value of zakat claims decreased to two hundred forty-seven million eight hundred thousand Saudi Riyals (SAR 247,800,000).	EEC appealed the claim before the General Secretariat of Tax Committees.	247,800,000

#	Plaintiff	Defendant	Dispute Summary	Status	Value of Claim (SAR)
4	Zakat, Tax and Customs Authority	Economic Cities Real Estate Development Company Limited	ZATCA issued its estimated zakat assessment for the company for 2015G - 2017G, with additional zakat claims of seventy-two million four hundred thousand Saudi Riyals (SAR 72,400,000). Economic Cities Real Estate Development Company Limited objected to the issued assessment and requested reassessment. On 26/07/1442H (corresponding to 10/03/2021G), ZATCA issued its decision rejecting the objection submitted by Economic Cities Real Estate Development Company Limited and confirming the amount of the claim.	Economic Cities Real Estate Development Company Limited appealed the claim before the General Secretariat of Tax Committees.	72,400,000
5	Ministry of Transport and Logistic Services	Company or EEC	The Ministry of Transport and Logistic Services requested EEC to share the costs incurred as a result of the Project of Redirecting the Haramain High Speed Railway through King Abdullah Economic City, which amount to two hundred twenty-nine million eight hundred twenty-one thousand ninety-three Saudi Riyals (SAR 229,821,093). EEC provided details of costs already incurred in connection with this project, including the value of the land provided by EEC, costs incurred in relation to the access bridge to the station and other associated infrastructure costs, which amount to one hundred seventy-five million six hundred twenty-one thousand one hundred forty-two Saudi Riyals (SAR 175,621,142).	The request is still under discussion between EEC and the Ministry.	229,821,039
6	Al Forsan Global Industrial Complex	Company or EEC	Al Forsan Global Industrial Complex has claimed compensation for the damages incurred due to failure to provide natural gas and industrial water, extend utilities, and deliver services, in addition to attorney fees, which comprise fifteen percent of the total value of the awarded judgment.	The claim is disregarded for lack of jurisdiction, and until the date of this Circular, EEC has not received any notification of filing a new lawsuit in any other court.	114,809,875

Source: Company or EEC

## 6-5 Bankruptcy

The Directors declare that none of the current Directors, the proposed directors, senior executives or the Secretary of the Board have not at any time been declared bankrupt or been subject to bankruptcy proceedings.

## 6-6 Insolvency

The Directors of the board declare that there has been no declaration, within the five years prior to the date of this Circular, of any insolvency in any company in which any of the current Directors, senior executives or the Secretary of the Board was hired in an administrative or supervisory capacity.

## 7. Statements by Experts

The Financial Advisor, Legal Advisor and Auditor whose names are included in page (iv) have given and not withdrawn their written consent, until the date of this circular, to the reference to their names, logos and statements in the form and content appearing in this circular. None of the Financial Advisor, Legal Advisor and Auditor, their employees (forming part of the engagement team serving the Company) and the relatives of these employees has shares or interests of any kind in EEC or EEC's Subsidiaries in a manner which would impair their independence as at the date of this circular.

## 8. Expenses

EEC will bear all expenses and costs related to the debt conversion, which are estimated at approximately (eleven (11) million Saudi Riyals). These expenses include the fees of the Financial Advisor, Legal Advisor, and Auditor and other related expenses. It should be noted that additional expenses are expected to arise later.

## 9. Waivers

With regard to EEC's capital increase through debt conversion, EEC has not applied for exemptions from any CMA requirements under the Rules on the Offer of Securities and Continuing Obligations.



## 10. Documents Available for Inspection

The following documents will be available for inspection at EEC's head office at Bay La Sun, Unit No. 1, Juman Street, KAEC 23964-2522, between 9:00 a.m. and 4:00 p.m. from 28/01/1443H (corresponding to 05/09/2021G) until 19/02/1443H (corresponding to 26/09/2021G) for a period of no less than fourteen (14) days before the Extraordinary General Assembly meeting to vote on the capital increase through debt conversion:

- 1- Subscription and Debt Conversion Agreement, Debt Transfer Notice, and Loan Transfer Agreement.
- 2- EEC's Pro Forma Consolidated Financial Information for the Financial Year ended December 31, 2020G.
- 3- Letters of consent from EEC's Financial Advisor, Legal Advisor and Auditor for the use of their names, logos and statements in this Circular.
- 4- A statement prepared and signed by EEC's Board of Directors and the Auditor on the origin and amount of the debt to be converted.

## Annex A - Consolidated Financial Statements and Auditor's Report

EEC's audited annual financial statements for the three years preceding the date of the application.

**EMAAR THE ECONOMIC CITY**  
**(A Saudi Joint Stock Company)**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 31 December 2020G**  
**with**  
**INDEPENDENT AUDITOR'S REPORT**



## KPMG Professional Services

Zahran Business Center  
Prince Sultan Street  
P.O. Box 55078  
Jeddah 21534  
Kingdom of Saudi Arabia  
Headquarter in Riyadh

Commercial Registration No 4030290792

## كي بي إم جي للاستشارات المهنية

مركز الزهران للأعمال  
شارع الأمير سلطان  
ص.ب 55078  
جدة 21534  
المملكة العربية السعودية  
المركز الرئيسي الرياض

سجل تجاري رقم 4030290792

# Independent Auditor's Report

To the Shareholders of Emaar The Economic City (A Saudi Joint Stock Company)

## 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 2020, 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 2020, 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 Auditor's 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.

## Material Uncertainty related to Going Concern

We draw attention to Note 3 of the consolidated financial statements, which indicates that the Group incurred a net loss of SR 1,248 million during the year ended 31 December 2020 and, as of that date, the Group's current liabilities exceeded its current assets by SR 3,230 million. These events or conditions, along with other matters as set forth therein, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## 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. In addition to the matter described in the Material Uncertainty related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

KPMG Professional Services is a professional closed joint stock company registered in the Kingdom of Saudi Arabia with the paid-up capital of SAR 15,000,000. Previously known as KPMG Al Fozan & Partners Certified Public Accountants. A member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited.

كي بي إم جي للاستشارات المهنية، شركة مبنية مساهمة مسجلة في المملكة العربية السعودية (رأس مالها 15000000) ريال سعودي مدفوع بالكامل، وقد تم تغيير اسم الشركة من الاسم السابق "شركة كي بي إم جي الفزان وشركاه" معتمدين ومراجعين قانونيين إلى الاسم الحالي بتاريخ 2021/03/21. وهي شركة عضو غير شريك في شبكة شركات كي بي إم جي العالمية والتابعة لـ كي بي إم جي العالمية، شركة مسجلة في بريطانيا.

Commercial Registration of the headquarter in Riyadh is 1010425494.



## Independent Auditor's Report

To the Shareholders of Emaar The Economic City (A Saudi Joint Stock Company) (continued)

The key audit matter	How our audit addressed the key audit matter
<p><b>Revenue recognition</b></p> <p>Revenue is an important component of the Group's performance and profitability.</p> <p>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 is an item which requires significant audit attention, in particular consideration of:</p> <ul style="list-style-type: none"> <li>the analysis of whether the contracts comprise one or more performance obligations;</li> <li>determining whether the performance obligations are satisfied over time or at a point in time;</li> <li>estimation of total costs required to meet performance obligations under the contracts with customers.</li> </ul> <p>Refer to note 4 of the consolidated financial statements for the accounting policy related to revenue recognition and note 7 for the disclosure related to revenue.</p>	<p>In responding to this key audit matter, our procedures included the following:</p> <ul style="list-style-type: none"> <li>Obtained an understanding of the process and key controls surrounding the revenue recognition process.</li> <li>Performed walkthroughs and testing of relevant key controls to determine whether they were designed, implemented and operated effectively throughout the year.</li> <li>Reviewed the contracts on a sample basis for the sale of properties and plots of land 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.</li> <li>On a sample basis, we assessed the appropriateness of percentage of the completion of the construction of properties by reference to costs incurred to date compared to the estimated total cost, where the performance obligation is satisfied over time.</li> <li>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 unsold units based on the relative area of the respective project.</li> <li>Evaluated the Group's forecasting accuracy associated with the project costs and estimating costs to complete.</li> <li>Recalculated the revenue, on a sample basis, using the input method and compared it with the calculation performed by the management.</li> <li>Assessed the appropriateness of the Group's revenue recognition accounting policies for recognizing revenue on sale of properties and the related disclosures in the consolidated financial statements.</li> </ul>



## Independent Auditor's Report

To the Shareholders of Emaar The Economic City (A Saudi Joint Stock Company) (continued)

The key audit matter	How our audit addressed the key audit matter
<p><b>Impairment review of investment properties and property and equipment</b></p> <p>The Group assesses indicators of impairment on its investment properties and property and equipment on an ongoing basis due to expected volatility in the market prices.</p> <p>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.</p> <p>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 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.</p> <p>In addition to the above, the Group involves third party valuers to carry out valuations for its investment properties and property and equipment, to assess the fair value of its investment properties.</p> <p>Refer to note 4 to the consolidated financial statements for the accounting policy for impairment of non-current assets, notes 14 &amp; 16 for disclosures related to property and equipment and investment properties, respectively.</p>	<p>In order to evaluate management's assessment of impairment, we performed the following:</p> <ul style="list-style-type: none"> <li>Discussed with the management the process of identifying impairment indicators and results of the assessment.</li> <li>Reviewed the appropriateness of management's identification of CGUs.</li> <li>Involved our internal valuation specialists to assess managements' impairment assessment, including reviewing the assumptions underlying the value in use calculations. Impairment assessment are in accordance with the established standards. Assessed whether the source data used is mathematically accurate and reasonable by comparing the source data used in the valuation to the management reports.</li> <li>Performed sensitivity analysis on significant assumptions to evaluate the extent of the impact of changes in the key assumptions and the conclusion reached by the management.</li> <li>Assessed the qualifications and expertise of the third party valuers, involved in the valuation of investment properties and property and equipment and reviewed the terms of their engagement to determine whether there were any matters that might have impacted their objectivity and</li> <li>Assessed the appropriateness of the Group's accounting policies for impairment and the related disclosures in the consolidated financial statements.</li> </ul>



## Independent Auditor's Report

To the Shareholders of Emaar The Economic City (A Saudi Joint Stock Company) (continued)

### 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 auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's 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, the Board of Directors, are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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.



## Independent Auditor's Report

To the Shareholders of Emaar The Economic City (A Saudi Joint Stock Company) (continued)

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

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 the one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- 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 auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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





## Independent Auditor's Report

To the Shareholders of Emaar The Economic City (A Saudi Joint Stock Company) (continued)

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

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

#### KPMG Professional Services

Ebrahim Oboud Baeshen  
License No. 382



Jeddah, 31 March 2021  
Corresponding to 18 Shaban 1442H

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

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

## AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020G

	Notes	2020G	2019G
		SR'000	SR'000
			(Restated)
Revenue	7	547,287	946,807
Cost of revenue	8	(866,316)	(644,819)
<b>GROSS (LOSS) / PROFIT</b>		<b>(319,029)</b>	301,988
<b>EXPENSES</b>			
Selling and marketing	9	(79,676)	(79,491)
General and administration	10	(277,094)	(290,652)
Impairment loss	14, 16, 20	(167,960)	(59,881)
Depreciation	14 (a), 15.1	(191,786)	(199,521)
Amortisation	17	(8,094)	(10,479)
<b>LOSS FROM MAIN OPERATIONS</b>		<b>(1,043,639)</b>	(338,036)
<b>OTHER INCOME / (EXPENSES)</b>			
Murabaha deposit income		2,536	791
Financial charges	11	(315,568)	(268,736)
Share of results of equity accounted investee	18 (a)	48,065	7,983
Other income, net	12	115,242	109,607
<b>LOSS FOR THE YEAR BEFORE ZAKAT</b>		<b>(1,193,364)</b>	(488,391)
Zakat	31	(55,000)	(45,000)
<b>NET LOSS FOR THE YEAR</b>		<b>(1,248,364)</b>	(533,391)
<b>OTHER COMPREHENSIVE (LOSS) / INCOME</b>			
Items that will be reclassified to consolidated statement of profit or loss in subsequent periods:			
Share of other comprehensive loss from equity accounted investee	18 (a)	(14,170)	(18,621)
Items that will not be reclassified to consolidated statement of profit or loss in subsequent periods:			
Re-measurement gain on defined benefit obligations	29	3,552	4,810
		(10,618)	(13,811)
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>(1,258,982)</b>	(547,202)
<b>LOSS PER SHARE</b>			
Basic and diluted loss per share attributable to ordinary equity holders of the Parent Company (in SR per share)	13	(1.47)	(0.63)

The attached notes 1 to 41 form part of these consolidated financial statements.

**EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)**
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As at 31 December 2020G

	Notes	2020G	2019G	2018G
		SR'000	SR'000	SR'000
			(Restated)	(Restated)
ASSETS				
NON-CURRENT ASSETS				
Property and equipment	14	5,609,660	5,879,747	5,466,868
Right-of-use assets	15.1	84,250	113,332	-
Investment properties	16	4,906,277	5,045,060	5,183,031
Unbilled revenue	21	300,848	630,975	183,901
Development properties	19	1,315,494	922,763	1,458,324
Intangible assets	17	7,877	12,516	18,616
Investment in equity accounted investees	18	2,445,822	2,411,927	2,422,565
Employees' receivable - Home Ownership Scheme	24	117,848	115,382	104,497
TOTAL NON-CURRENT ASSETS		14,788,076	15,131,702	14,837,802
CURRENT ASSETS				
Current portion of employees' receivable - Home Ownership Scheme	24	7,785	7,213	6,278
Unbilled revenue	21	444,610	413,144	508,395
Development properties	19	145,153	720,845	347,079
Accounts receivables and other current assets	20	654,776	656,661	761,538
Murabaha term deposits with banks	22	101,358	-	50,000
Cash and cash equivalents	23	174,904	404,393	602,632
TOTAL CURRENT ASSETS		1,528,586	2,202,256	2,275,922
TOTAL ASSETS		16,316,662	17,333,958	17,113,724

The attached notes 1 to 41 form part of these consolidated financial statements.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)  
As at 31 December 2020G

	Notes	2020G	2019G	2018G
		SR'000	SR'000	SR'000
			(Restated)	(Restated)
EQUITY AND LIABILITIES				
EQUITY				
Share capital	25	8,500,000	8,500,000	8,500,000
Statutory reserve	26	11,536	11,536	11,536
Accumulated losses		(2,668,263)	(1,409,281)	(861,470)
TOTAL EQUITY		5,843,273	7,102,255	7,650,066
NON-CURRENT LIABILITIES				
Long-term loans	27	5,475,161	6,556,250	7,051,250
Lease liabilities	15.2	51,319	80,625	-
Employees' terminal benefits	29	61,937	63,868	64,220
Unearned financing component on long term receivables		93,906	116,388	68,911
Unearned interest income - Home Ownership Scheme	24	31,977	30,737	26,871
TOTAL NON-CURRENT LIABILITIES		5,714,300	6,847,868	7,211,252
CURRENT LIABILITIES				
Accounts payable and accruals	30	1,510,420	1,305,108	1,088,063
Accrued Zakat	31	108,687	121,816	156,843
Current portion of long-term loans	27	2,626,250	1,557,500	857,500
Short-term loans	28	472,933	366,398	150,000
Lease liabilities	15.2	40,799	33,013	-
TOTAL CURRENT LIABILITIES		4,759,089	3,383,835	2,252,406
TOTAL LIABILITIES		10,473,389	10,231,703	9,463,658
TOTAL EQUITY AND LIABILITIES		16,316,662	17,333,958	17,113,724

The attached notes 1 to 41 form part of these consolidated financial statements.

**EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)**
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**For the year ended 31 December 2020G**

	Share capital	Statutory reserve	Accumulated losses	Total Equity
	("ooo")	("ooo")	("ooo")	("ooo")
Balance as at 31 December 2019G	8,500,000	11,536	(1,157,305)	7,354,231
Adjustment on application of IAS 23 – Agenda decision (Note 5)	-	-	(251,976)	(251,976)
Balance as at 31 December 2019G (Restated)	8,500,000	11,536	(1,409,281)	7,102,255
Net loss for the year	-	-	(1,248,364)	(1,248,364)
Other comprehensive loss for the year	-	-	(10,618)	(10,618)
Total comprehensive loss for the year	-	-	(1,258,982)	(1,258,982)
<b>Balance as at 31 December 2020G</b>	<b>8,500,000</b>	<b>11,536</b>	<b>(2,668,263)</b>	<b>5,843,273</b>
Balance as at 31 December 2018G	8,500,000	11,536	(634,077)	7,877,459
Adjustment on application of IAS 23 – Agenda decision (Note 5)	-	-	(227,393)	(227,393)
Balance as at 31 December 2018G (Restated)	8,500,000	11,536	(861,470)	7,650,066
Adjustment on initial application of IFRS 16	-	-	(609)	(609)
Adjusted balance as at 1 January 2019G	8,500,000	11,536	(862,079)	7,649,457
Net loss for the year	-	-	(533,391)	(533,391)
Other comprehensive loss for the year	-	-	(13,811)	(13,811)
Total comprehensive loss for the year	-	-	(547,202)	(547,202)
Balance as at 31 December 2019G	<b>8,500,000</b>	<b>11,536</b>	<b>(1,409,281)</b>	<b>7,102,255</b>

The attached notes 1 to 41 form part of these consolidated financial statements.

**EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)**
**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the year ended 31 December 2020G

	Notes	2020G	2019G
		SR'ooo	SR'ooo
			(Restated)
OPERATING ACTIVITIES			
Loss for the year before Zakat		(1,193,364)	(488,391)
Adjustments to reconcile loss for the year before Zakat to net cash flows:			
Depreciation	14,15,16	341,912	349,945
Impairment loss	14,16,20	264,989	59,881
Amortization	17	8,094	10,479
Financial charges	11	315,568	268,736
Share of results of equity accounted investees	18	(48,065)	(7,983)
Murabaha deposit income		(2,536)	(791)
Unwinding of unearned interest income		(39,495)	(2,622)
Gain on disposal of investment properties	12	(5,717)	(38,297)
Gain on disposal of property and equipment		-	140
Employees' benefit expense – Home Ownership Scheme		8,264	6,979
Provision for development properties	19	137,622	-
Provision for employees' terminal benefits	29	15,930	17,234
		(196,798)	175,310
Working capital adjustments			
Employees' receivable – Home Ownership Scheme		(10,062)	(18,799)
Unbilled revenue, net		298,661	(367,090)
Development properties		110,347	179,626
Accounts receivables and other current assets		(84,991)	42,003
Accounts payable and accruals		88,834	151,957
Net cash generated from operations		205,991	163,007
Financial charges paid		(191,175)	(318,979)
Finance charges paid on lease liabilities		(3,958)	(5,265)
Zakat paid	31	(68,129)	(80,027)
Employees' terminal benefits paid	29	(14,309)	(12,776)
Net cash used in operating activities		(71,580)	(254,040)

The attached notes 1 to 41 form part of these consolidated financial statements.

**EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)**
**CONSOLIDATED STATEMENT OF CASH FLOWS (continued)**

For the year ended 31 December 2020G

	Notes	2020G	2019G
		SR'000	SR'000
			(Restated)
INVESTING ACTIVITIES			
Investment in Murabaha term deposits		1,481,554	(8,860,894)
Murabaha term deposit encashment		(1,582,359)	8,910,894
Murabaha deposit income		2,536	1,924
Additions to property and equipment		(144,002)	(378,910)
Additions to investment properties	16	(12,168)	(106,557)
Proceeds from sale of investment properties		13,023	46,506
Proceeds from disposal of property and equipment		-	140
Additions to intangible assets	17	(3,455)	(4,379)
Net cash used in investing activities		(244,871)	(391,276)
FINANCING ACTIVITIES			
Proceeds from loans		256,946	1,666,398
Repayments of loans		(162,750)	(1,245,000)
Movement in unearned interest income		17,013	53,967
Repayment of short term lease liabilities		-	(507)
Repayment of lease liabilities		(24,247)	(27,781)
Net cash generated from financing activities		86,962	447,077
DECREASE IN CASH AND CASH EQUIVALENTS		(229,489)	(198,239)
Cash and cash equivalents at the beginning of the year	23	404,393	602,632
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	23	174,904	404,393

The attached notes 1 to 41 form part of these consolidated financial statements.

**EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2020G

**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 03 Ramadan 1427H, corresponding to 21 September 2006G. The Company obtained its initial Commercial Registration No. 4030164269 on 8 Ramadan 1427H, corresponding to 26 September 2006G. 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 2014G.

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 No.
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**

The accompanying 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**

The accompanying 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 Arabian Riyals ("SR"), 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.



EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020G

### 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 Group continues to assess the impact of COVID -19 on its operations on regular basis. However, the outbreak is evolving rapidly, due to which there is a material uncertainty around the expected duration and potential impact on the overall economy and also on the operations of the Group. Consequently, it is challenging to assess the impact of such an evolving condition with certainty at this stage, considering the limited economic information available to determine the impact of the outbreak on the wider economy and the real estate sector.

The Group has assessed that the current situation would impact key estimates used in determining the net realisable value of development properties, expected credit loss from accounts receivables and contract assets, cost to complete the projects and the fair value of property and equipment and investment properties. This is predominantly on account of decline in demand and sale price of development properties. The Group has exercised significant judgment in evaluating the impact of the outbreak and shall consider reassessing such judgments and estimates in subsequent periods as the situation evolves.

However, in the view of the current uncertainty due to COVID-19, any future change in the assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future periods. As the situation is rapidly evolving with future uncertainties, management will continue to assess the impact based on prospective developments (refer note 40).

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 customers, 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.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2020G

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

#### Judgements (continued)

##### 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.

In determining the impact of variable consideration, the Group uses the "most-likely amount" method in IFRS-15 Revenue from Contracts with Customers whereby the transaction price is determined by reference to the single most likely amount in a range of possible consideration amounts.

##### 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 29.

#### Estimations and assumptions

##### Provision for expected credit losses (ECLs) of accounts receivables

The Group uses a provision matrix to calculate ECLs for accounts receivables. The provision matrix is initially based on the Group's historically observed rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information at each reporting date. The assessment of the correlation between historically observed default rates, forecasted economic conditions and ECLs are significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customers' actual default in the future. The information about the ECL on the Group's accounts receivables is disclosed in note 20.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2020G

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

#### Estimations and assumptions (continued)

##### 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. Development properties are stated at the lower of cost and estimated net realisable value.

##### Going concern

The Group incurred a net loss of SR 1,248 million during the year ended 31 December 2020G, and, as of that date, the Group's accumulated losses are SR 2,668 million, which exceeds 20% of the share capital. In addition to this, the current liabilities exceeded its current assets by SR 3,230 million. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

This was further exacerbated by the outbreak of novel coronavirus (COVID-19), classified as a pandemic in March 2020G, causing significant macro-economic uncertainty and disruptions to economic activities. The extent to which the COVID-19 pandemic will affect the Company's financial position, results of operations and cash flows is difficult to predict with certainty and depends on numerous evolving factors, including the duration and scope of the pandemic; government, social, business and other actions that have been and will be taken in response to the pandemic; and the effect of the pandemic on short and long-term general economic conditions.

The Management and those charged with Governance (TCWG) have actively responded to changes in market demand and timely adjusted its operating strategy. For most of the 2020G financial year, the Group's operations were severely impacted by the actions taken by governments to address the health impacts of the COVID-19 global pandemic. This included imposing travel restrictions and international and domestic border closures, which have significantly disrupted air travel. The COVID-19 Outbreak has impacted the Group across its segments (real estate and hospitality) which is reflected in its financial results for the year ended 31 December 2020G.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020G

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

#### Estimations and assumptions (continued)

#### Going concern (continued)

Furthermore, the Management performed a comprehensive assessment of the directional impact of COVID 19 on the Group's core operations (see note 40) and undertook various measures aimed at addressing the anticipated operational challenges and liquidity gaps. The Management is currently exploring number of options available to them to obtain sufficient finance to meet the funding requirements and the scheduled repayments to the lenders.

These include, among others, restructuring of current debt obligations and obtaining additional financing facilities. Furthermore, discussions regarding the restructuring of the loans, repayment plans and debt conversion are already in progress with the respective lenders.

Key highlights of the mitigation plan are described below:

Aspect	Description	Measures taken
Debt restructuring	Loan due to Ministry of Finance ("MoF") – note 27(a). (Principal amount: SR 5,000 million, amount included under current liabilities: SR 1,400 million)	In January 2020G, the MoF had rescheduled the first instalment, which was due in June 2020G, to January 2021G with the principal amount repayable in seven instalments, commencing from January 2021G, and the accrued commission payable on an annual basis. Currently, the Group is in discussions with the MoF for rescheduling the principal repayments over a 10 years period, structured as 3 years grace period and repayment over 7 years and further financial support of SR 566 million. Subsequent to the year end, on 20 January 2021G, the Group has received communication from MoF for deferral of installment due as on 01 January 2021G and accrued commission total amounting to SR 1,000 million to 31 January 2021G. Discussions are underway to finalize the conversion of loan to equity, as announced, amounting to SR 2,833 million, rescheduling of remaining loan amount and further financial support, as requested earlier.
	Loan due to commercial bank – note 27(b) (Principal amount: SR 1.7 billion, amount included under current liabilities: SR Nil)	During the year ended 31 December 2020G, the Company has signed revised facility agreement with the commercial bank for the outstanding facility amounting to SR 1,700 million. Hence, the principal amount is now repayable, after a grace period of 3 years from 2020G to 2022G, in multiple semi-annual unequal instalments from 2023G to 2030G.
	Loan due to Commercial bank – note 27(b) (Principal amount: SR 437.5 million, amount included under current liabilities: SR 250 million)	During the year ended 31 December 2020G, the Group has requested the lender to restructure its borrowing by deferring the repayments falling due within the next 12 months, and rescheduling the repayment of the remaining balances over ten years, structured as 3 years grace period, and repayment over 7 years starting from April 2023G to October 2029G in semi-annual instalments. The lender has already deferred the repayments due in April 2020G and October 2020G to April 2021G. Subsequent to the year end, on 03 March 2021G, the Group received a letter from the lender confirming approval of EEC's restructuring request. The lender's proposed re-structuring terms are awaiting Board of Directors approval.

**EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

For the year ended 31 December 2020G

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

#### Estimations and assumptions (continued)

##### Going concern (continued)

Aspect	Description	Measures taken
Debt restructuring (continued)	Loan due to commercial bank – note 27(b) (Principal amount: SR 976.25 million, amount included under current liabilities: SR 976.25 million.)	During the year ended 31 December 2020G, the Group has requested the lender to restructure its borrowing by deferring the repayments falling due within the next 12 months and rescheduling the repayment of the remaining balances over ten years, structured as 3 years grace period from 2020G to 2022G and repayment over 7 years in semi-annual instalments from 2023G to 2030G. The lender has deferred the repayments due on 30 June 2020G and 31 December 2020G to 30 April 2021G; pending approval of the requested restructuring plan.
Working capital facility rearrangement	Working capital facility due to commercial bank – note 28. (Principal amount: SR 170 million)	During the year ended 31 December 2020G, the Group has signed a revised facility letter agreement for working capital facility amounting to SR 170 million, restructured to a medium term loan, and to be repaid in 8 equal semi-annual instalments over 4 years starting 28 February 2021G, together with specific security collaterals and covenants. Pledging of the plots identified as collateral was completed subsequent to the year end.
Debt to equity conversion	Conversion of a portion of MOF loan to equity	<p>The Group has entered into a Subscription Agreement dated 31 August 2020G between the Group, its warrantors, and Public Investment Fund ("PIF"), the completion of which is subject to a number of conditions including the novation of part of the MOF loan to the PIF and the legal and regulatory formalities.</p> <p>Additionally, discussions are ongoing between the MoF and PIF with respect to novation of part of the loan due to MoF, pursuant to the loan agreement entered into with MoF dated 20/06/1432H. (corresponding to 23 May 2011G) as amended on 17/08/1436H. (corresponding to 4 June 2015G), with a total amount of SR 2,833,333,340 (the "Novation").</p> <p>Thereafter, pursuant to the Subscription Agreement, PIF will enter as an investor in the Company through issuance of 283,333,334 new shares in the Company, at the nominal value of SR 10 per share, against the entire debt owed by the Company to PIF pursuant to the Novation.</p> <p>The Subscription Agreement, subject to completion of the legal and regulatory formalities, will result in the Capital Increase and settlement of the entire debt owed by the Group to PIF pursuant to the Novation amounting to SR 2,833,333,340.</p>

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
 For the year ended 31 December 2020G

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

#### Estimations and assumptions (continued)

##### Going concern (continued)

Aspect	Description	Measures taken
Cost optimization	Operational performance	The Group has commenced an exercise to identify operational areas for cost optimization. Various measures are being considered to preserve cash and improve the overall liquidity position including real estate financing and various cost optimization initiatives.

Based upon the current consolidated statement of financial position of the Group, detailed Group forecasts were prepared using various scenarios to assess the sensitivity of key assumptions used and all reasonably probable cashflows with such timing and amount, including forward-looking assumptions as supported by the circumstances and facts available, as of the date of issuance of these consolidated financial statements, including the impact of COVID 19, the on-going restructuring of debt, the Management and TCWG remain confident that appropriate and sufficient facilities will be in place and the debt to equity conversion (see above "conversion of a portion of MOF loan to equity") will be successfully completed. However, there are no signed restructuring agreements yet in place except as disclosed in the mitigation plan, and the legal and regulatory formalities related to the debt to equity conversion are in progress.

For the above reasons, the consolidated financial statements have been prepared on a going concern basis. Should the Group not obtain financing, the rescheduled payment terms and the debt to equity conversion be unsuccessful, there exists a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern, and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not contain any adjustments which may be required if the Group was unable to continue as a going concern.

Furthermore, the Management cannot preclude the possibility that extended periods of economic strain on the economic environment the Group operates in, may have a potential effect on the Group, and its financial position and operating results, in the medium and longer-term. The changes in circumstances may require further enhanced disclosures in the financial statements of the Group for subsequent periods.

### 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, except for the change in accounting policy of borrowing costs due to the adoption of Agenda decision - Over Time Transfer of Constructed Good - IAS 23 Borrowing Costs (refer note 5).

#### Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2020G. 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.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2020G

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Basis of Consolidation (continued)

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 investees;
- 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.

Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

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.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020G

**4. SIGNIFICANT ACCOUNTING POLICIES (continued)****Basis of Consolidation (continued)**

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)	
			2020G	2019G
Economic Cities Investments Holding Company ("ECIHC")	Kingdom of Saudi Arabia	2010G	100%	100%
Industrial Zones Development Company Limited ("IZDCL")	Kingdom of Saudi Arabia	2011G	100%	100%
Economic Cities Real Estate Properties Operation and Management Company ("REOM")	Kingdom of Saudi Arabia	2013G	100%	100%
Economic Cities Pioneer Real Estate Management Company ("REM")	Kingdom of Saudi Arabia	2013G	100%	100%
Economic Cities Real Estate Development Company ("RED")	Kingdom of Saudi Arabia	2013G	100%	100%
Emaar Knowledge Company Limited ("EKC")	Kingdom of Saudi Arabia	2015G	100%	100%

The financial statements of subsidiaries are prepared for the same reporting period using the same accounting framework as the Group. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

Pursuant to the resolutions passed by the shareholders of the above mentioned entities during 2018G, the Company has acquired remaining shareholdings in ECIHC, IZDCL, REOM, REM and RED. The legal formalities in respect of transfer of these shares were completed in 2019G and 2020G.

Refer to note 18 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 of accounting. Under the equity method of accounting, 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 and the same accounting framework as the Group.



EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
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#### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Investment in equity accounted investees (associate and joint venture) (continued)

After application of the equity method of accounting, 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:

- Expected to be settled in the normal operating cycle;
- Held primarily for the purpose of trading;
- Due to be settled within twelve months after the reporting period; or
- 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.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
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## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition (continued)

#### 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.

If the consideration promised in a contract includes a variable amount, the Group shall estimate the amount of consideration to which the Group will be entitled in exchange for transferring the promised goods or services to a customer.

The promised consideration can vary if the Group's entitlement to the consideration is contingent on the occurrence or non-occurrence of a future event. An amount of consideration can vary due to discounts, rebates, refunds, credits, incentives, penalties or other similar items. The variability relating to the consideration promised by a customer, if any, is explicitly stated in the contract. Accordingly, the Group estimates the amount of variable consideration by using the most likely amount in accordance with the terms of the contract.

In respect of contracts with customers for sale of property, in addition to the five-step model, the Company 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
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## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition (continued)

#### Rental income

Rental income from investment properties 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

It comprises of 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 proportionate to sold units and is based on the cost incurred to-date 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 foreign payments as required under the Saudi Arabian Tax Laws. Such withholding tax is recorded as a liability.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020G

**4. SIGNIFICANT ACCOUNTING POLICIES (continued)****Value added tax and real estate transaction tax**

During the year 2020G, the General Authority for Zakat and Tax (GAZT) announced that pursuant to the Royal Decree No. (A/84) dated 1 October 2020G, the disposal of real estate in the Kingdom of Saudi Arabia by way of certain transactions resulting in a transfer of legal ownership or possession will be VAT exempt and subject to a 5% real estate transaction tax (RETT). RETT is applicable on the transaction that took place on or after 4 October 2020G. However, as per the RETT law, the licensed real estate developer can recover input VAT on the property sold after 4 October 2020G.

Other than disposal of real estate transactions covered under RETT law, the Group is subject to Value Added Tax ("VAT") for the supply of other goods and services 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 other than claimable under RETT law ("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 Proportional 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.

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.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2020G

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property and equipment (continued)

#### Recognition and measurement (continued)

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of property and equipment may not be recoverable. Whenever the carrying amount of property and equipment exceeds their recoverable amount, an impairment loss is recognised in the consolidated statement of profit or loss and other comprehensive income. The recoverable amount is the higher of fair value less costs to sell of property and equipment and the value in use. The fair value less costs to sell is the amount obtainable from the sale of property, plant and equipment in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of property and equipment and from its disposal at the end of its useful life.

Reversal of impairment losses other than goodwill impairment recognised in the prior years are recorded when there is an indication that the impairment losses recognised for the property and equipment no longer exist or have reduced.

#### Depreciation

The depreciable amount 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 (CWIP)

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

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
  - the Group has the right to operate the asset; or
  - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
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## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leases (continued)

#### Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

#### Right-of-use assets:

The Group recognises a right-of-use asset and lease liability at the commencement date of the lease (i.e., the date the underlying asset is available for use). The right-of-use asset is initially measured at cost. Subsequently, it is measured at cost less accumulated depreciation and impairment losses, if any, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the initial measurement of the lease liability adjusted for any lease payments made at or before the commencement date, any initial direct costs incurred and an estimate of costs to dismantle, less any lease incentive received. The estimated useful life of right-of-use assets is determined on the same basis as those of property and equipment. The recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

#### Lease liabilities:

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Group has the option, under some of its leases to lease the assets for additional terms of one to five years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate ("IBR") is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms and conditions. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
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## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leases (continued)

#### Short-term leases and leases of low-value assets:

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less, and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense 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.

Lease incentives or any escalation in the lease rental are recognized as an integral part of the total lease 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.

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.

#### 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, other than development properties, 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 or construction of an asset, other than development properties, 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.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
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#### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Investment properties

Investment properties are non current assets 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.

Expenses incurred for replacing component of investment properties items, which are accounted for separately are capitalized, and carrying value of replaced component is written off. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of the related investment properties. All other expenses are recognized in the consolidated statement of profit or loss and other comprehensive income when incurred.

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.

The Group determines at each reporting date whether there is any objective evidence that the investment properties are impaired. Whenever the carrying amount of an investment property exceeds their recoverable amount, an impairment loss is recognised in the consolidated statement of profit or loss and other comprehensive income. The recoverable amount is the higher of investment property's fair value less cost to sell and the value in use.

Reversal of impairment losses recognised in the prior years is recorded when there is an indication that the impairment losses recognised for the investment property no longer exist or have reduced.

##### 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.



EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
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#### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Fair value measurement (continued)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

##### Intangible assets

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

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

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.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
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## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of non-financial assets (continued)

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 based on the market prices at the reporting date, 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.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
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## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial Instruments (continued)

#### Financial assets (continued)

##### 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, Murabaha term deposits with banks and cash and cash equivalents.

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

##### Reclassification

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

##### De-recognition

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020G

**4. SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial Instruments (continued)****Financial assets (continued)****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. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and a loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter into bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as economic conditions that correlate with defaults.

IFRS 9 requires an entity to follow an expected credit loss ("ECL") 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. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive.

Expected credit loss shall be measured and provided either at an amount equal to (a) 12 month expected losses; or (b) lifetime expected losses. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for the amounts that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

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 ECL. The Group has chosen to avail the option of lifetime expected credit losses ("ECL"). Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables with no significant financing component, an entity is required to follow lifetime ECL.

The carrying amount of the financial asset is reduced through the use of an allowance account and the amount of the loss is recognized in the 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. 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.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2020G

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial Instruments (continued)

#### Financial assets (continued)

##### Impairment of financial assets (continued)

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

The Group considers a financial asset to be in default when the debtor is unlikely to repay the outstanding balance to the Group in full, without recourse by the Group to actions such as realizing security (if any is held).

### 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, lease liabilities, accruals and term loans.

#### Classification and subsequent measurement

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

- financial liabilities at fair value through consolidated statement of profit or loss and other comprehensive income.
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
- financial guarantee contracts.
- commitments to provide a loan at a below-market commission rate.
- 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.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2020G

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial Instruments (continued)

#### Financial liabilities (continued)

##### 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.

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.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2020G

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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 maintains an unfunded defined benefit plan for employees' termination / end of service benefits in accordance with the Saudi Arabian Labor Law.

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

An operating segment is a component of an entity:

- i. that is 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. whose operating results 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 34.

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.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020G

## 5. CHANGE IN SIGNIFICANT ACCOUNTING POLICY

During 2019G, the IFRS Interpretations Committee published an agenda decision "Over Time Transfer of Constructed Good - IAS 23 Borrowing Costs" (hereinafter referred to as 'the agenda decision').

The agenda decision states that Inventories (work-in-progress) for unsold units under construction that the Group recognizes are not qualifying assets. The agenda decision clarifies as these assets are ready for its intended sale in its current condition, i.e., the Group intends to sell the part-constructed units as soon as it finds suitable customers and, on signing a contract with a customer, will transfer control of any work-in-progress relating to that unit to the customer, these are not qualifying assets and hence do not meet the IAS 23 criteria for capitalization of borrowing costs. The Group adopted the agenda decision and the effect arising due to the change of accounting policy on the consolidated financial statements is as follows:

### Previous policy

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.

### Revised policy

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, other than development properties, 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 or construction of an asset, other than development properties, 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.



EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2020G

## 5. CHANGE IN SIGNIFICANT ACCOUNTING POLICY (continued)

	As previously reported	Adjustments under IAS 23	Restated amounts
	SR'ooo	SR'ooo	SR'ooo
	As at 31 December 2019G		

### Statement of Financial Position

Development properties – non-current portion	1,054,380	(131,617)	922,763
Development properties – current portion	790,126	(69,281)	720,845
Unbilled revenue – non-current portion	714,912	(83,937)	630,975
Unbilled revenue – current portion	362,141	51,003	413,144
Total assets	17,567,790	(233,832)	17,333,958
Unearned financing component on long term receivables	(98,244)	(18,144)	(116,388)
Total non-current liabilities	(6,829,724)	(18,144)	(6,847,868)
Accumulated losses	(1,157,305)	(251,976)	(1,409,281)

	As previously reported	Adjustments under IAS 23	Restated amounts
	SR'ooo	SR'ooo	SR'ooo
	As at 31 December 2018G		

### Statement of Financial Position

Development properties - non-current portion	1,603,109	(144,785)	1,458,324
Development properties - current portion	411,098	(64,019)	347,079
Unbilled revenue – non-current portion	209,123	(25,222)	183,901
Unbilled revenue – current portion	502,344	6,051	508,395
Total assets	17,341,699	(227,975)	17,113,724
Unearned financing component on long term receivables	(69,493)	582	(68,911)
Total non-current liabilities	(7,211,834)	582	(7,211,252)
Accumulated losses	(634,077)	(227,393)	(861,470)

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020G

5. CHANGE IN SIGNIFICANT ACCOUNTING POLICY (continued)

	As previously reported	Adjustments under IAS 23	Restated amounts
	SR'ooo	SR'ooo	SR'ooo
	For the year ended 31 December 2019G		
Statement of Profit or Loss and Other Comprehensive Income			
Revenue	986,888	(40,081)	946,807
Cost of revenue	(684,468)	39,649	(644,819)
Gross profit	302,420	(432)	301,988
Loss from main operations	(337,604)	(432)	(338,036)
Financial charges	(236,993)	(31,743)	(268,736)
Other income	102,015	7,592	109,607
Loss for the year before zakat	(463,808)	(24,583)	(488,391)
Zakat	(45,000)	-	(45,000)
Net loss for the year	(508,808)	(24,583)	(533,391)
Total comprehensive loss for the year	(522,619)	(24,583)	(547,202)
Loss per share (in SR per share)	(0.60)	(0.03)	(0.63)
Operating activities	(240,575)	(11,234)	(251,809)
Investing activities	(391,276)	-	(391,276)
Financing activities	433,612	11,234	444,846

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
 For the year ended 31 December 2020G

## 6. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS

### Standards, interpretations and amendments issued but not yet effective

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

Standard / Interpretation	Description	Effective from periods beginning on or after the following date
IAS 39, IFRS 4, 7, 9 and 16	Interest rate benchmark reform – phase 2	1 January 2021G
IAS 37	Onerous contracts – cost of fulfilling a contract	1 January 2022G
IFRS Standards	Annual improvements to IFRS standards 2018G – 2020G	1 January 2022G
IAS 16	Property, plant and equipment: proceeds before intended use	1 January 2022G
IFRS 3	Reference to the conceptual framework	1 January 2022G
IFRS 17	Insurance contracts	1 January 2023G
IAS 1	Classification of liabilities as current or non-current (amendments to IAS 1)	1 January 2023G
IFRS 10 and IAS 28	Sale or contribution of assets between investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	Available for optional adoption / effective date deferred indefinitely

The Group is currently assessing the applicability and implications of adopting the above mentioned standards, amendments or interpretations on its financial statements on adoption, where applicable.

## 7. REVENUE

	31 December 2020G	31 December 2019G
	SR'000	SR'000
		(Restated)
<b>Revenue by operating segments:</b>		
Residential business	92,633	500,462
Industrial development	281,810	300,803
Hospitality and leisure	98,196	73,856
Others	74,648	71,686
	547,287	946,807
<b>Revenue by nature:</b>		
Sale of properties	229,468	670,282
Leasing	135,065	117,542
Hospitality	93,031	70,566
Others	89,723	88,417
	547,287	946,807

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2020G

## 8. COST OF REVENUE

	31 December 2020G SR'000	31 December 2019G SR'000
		(Restated)
Cost of properties (note 19)	169,022	212,982
Provision for development properties (note 19)	137,622	-
Depreciation	150,126	150,424
Employees' costs	86,661	90,119
Hospitality	21,768	16,474
Leasing related cost	6,199	512
Maintenance	43,250	60,154
Refurbishment cost	59,371	-
Impairment (note 14)	97,029	-
Others	95,268	114,154
	866,316	644,819

## 9. SELLING AND MARKETING EXPENSES

	31 December 2020G SR'000	31 December 2019G SR'000
Employees' costs	22,885	26,838
Promotional expenses	33,573	6,508
Branding and marketing costs	9,761	17,953
Advertising costs	6,897	12,848
Public relations	2,054	2,030
Others	4,506	13,314
	79,676	79,491

## 10. GENERAL AND ADMINISTRATION EXPENSES

	31 December 2020G SR'000	31 December 2019G SR'000
Employees' costs	203,198	203,652
Professional charges	29,100	33,172
Communication and office costs	19,132	23,492
Facility and city management services	6,834	10,542
Repairs and maintenance	4,942	3,931
Others	13,888	15,863
	277,094	290,652

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2020G

## 11. FINANCIAL CHARGES

	31 December 2020G SR'000	31 December 2019G SR'000
		(Restated)
Commission on loans	308,593	259,667
Financial charges on leases (note 15.2)	3,958	5,265
Bank charges	3,017	3,804
	315,568	268,736

## 12. OTHER INCOME, NET

	31 December 2020G SR'000	31 December 2019G SR'000
		(Restated)
Reimbursement of expenses (see note (a) below)	47,550	55,243
Amortization of unearned interest (see note (b) below)	39,495	24,779
Reversal of accruals no longer required	3,717	1,055
Gain on disposal of investment properties (see note (c) below)	5,717	38,297
Claim settlement provision (see note (d) below)	-	(10,000)
Others	18,763	233
	115,242	109,607

- 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. In addition, during the year ended 31 December 2020G, an additional funding of USD 16 million has been approved. Consequently, the net operating loss or expenses of the subject institute, amounting to SR 47.6 million (31 December 2019G: SR 55.2 million), incurred during the year, has been accounted for as an other income accordingly.
- Unwinding of interest income on significant financing component amounting to SR 39.5 million (31 December 2019G: SR 24.7 million).
- During the year, the Group has entered into agreements with certain customers for the sale of investment properties resulting in a gain of SR 5.7 million (31 December 2019G: SR 38 million).
- During 2019G, a government agency filed a claim against the Company related to operations of the Oceana Villas. The Company defended the claim by submitting all the requested documents, with no resolution. To close the case, the agency proposed an amount of SR 10 million, to be paid in ten equal installments, as full and final settlement which has been accepted by the Company. Accordingly, it has been reflected as provision in the books of accounts.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020G

**13. LOSS PER SHARE**

Basic Earnings per Share (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 per share calculation is given below:

	31 December 2020G	31 December 2019G
	SR'000	SR'000
		(Restated)
Loss attributable to ordinary equity holders of the parent	(1,248,364)	(533,391)
Weighted average number of ordinary shares ('000)	850,000	850,000
Loss per share (Saudi Riyals) – Basic and Diluted	(1.47)	(0.63)

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2020G

## 14. PROPERTY AND EQUIPMENT

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

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

	Freehold land SR'000	Buildings SR'000	Leasehold improvements SR'000	Heavy equipment & machinery SR'000	Furniture and fixtures SR'000	Office equipment SR'000	Motor vehicles SR'000	Infrastructure assets SR'000	Capital work in progress (CWIP) SR'000	Total 2020G SR'000
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### Cost:

At the beginning of the year	135,283	1,313,528	336,407	90,105	155,098	97,412	15,089	3,170,466	1,817,126	7,130,514
Additions	-	76	1,912	1,553	4,829	3,925	295	25	131,387	144,002
Transfers	-	95,218	770	-	1,231	5,259	47	19,509	(122,034)	-
Impairment (note (e) below and note 40)	-	(142,197)	-	-	-	-	-	-	(10,999)	(153,196)
At the end of the year	135,283	1,266,625	339,089	91,658	161,158	106,596	15,431	3,190,000	1,815,480	7,121,320

### Depreciation:

At the beginning of the year	-	292,671	93,187	44,135	117,879	71,507	12,360	619,028	-	1,250,767
Charge for the year	-	52,026	26,432	12,891	21,212	15,830	2,635	129,867	-	260,893
At the end of the year	-	344,697	119,619	57,026	139,091	87,337	14,995	748,895	-	1,511,660

### Net book value

At 31 December 2020G	135,283	921,928	219,470	34,632	22,067	19,259	436	2,441,105	1,815,480	5,609,660
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EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2020G

# 14. PROPERTY AND EQUIPMENT (continued)

	Freehold land SR'000	Buildings SR'000	Leasehold improvements SR'000	Heavy equipment & machinery SR'000	Furniture and fixtures SR'000	Office equipment SR'000	Motor vehicles SR'000	Infrastructure assets SR'000	Capital work in progress (CWIP) SR'000	Total 2019G SR'000
<b>Cost:</b>										
At the beginning of the year	135,283	1,070,525	157,231	63,203	135,342	79,432	14,919	3,023,662	1,771,881	6,451,478
Additions	-	714	21,707	1,477	3,215	6,665	770	-	468,632	503,180
Transfers	-	72,610	150,525	25,425	16,541	11,315	-	146,804	(423,220)	-
Transfer from investment properties (note 16)	-	169,679	6,944	-	-	-	-	-	-	176,623
Impairment (note (e) below)	-	-	-	-	-	-	-	-	(167)	(167)
Disposals	-	-	-	-	-	-	(600)	-	-	(600)
At the end of the year	135,283	1,313,528	336,407	90,105	155,098	97,412	15,089	3,170,466	1,817,126	7,130,514
<b>Depreciation:</b>										
At the beginning of the year	-	242,674	56,902	33,472	91,465	58,829	10,239	491,029	-	984,610
Charge for the year	-	49,997	36,285	10,663	26,414	12,678	2,721	127,999	-	266,757
Disposals	-	-	-	-	-	-	(600)	-	-	(600)
At the end of the year	-	292,671	93,187	44,135	117,879	71,507	12,360	619,028	-	1,250,767
<b>Net book value</b>										
At 31 December 2019G	135,283	1,020,857	243,220	45,970	37,219	25,905	2,729	2,551,438	1,817,126	5,879,747



EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2020G

## 14. PROPERTY AND EQUIPMENT (continued)

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

	31 December 2020G SR'000	31 December 2019G SR'000
Cost of revenue	71,990	69,958
Others	188,903	196,799
	260,893	266,757

- 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 97 million (2019G: SR 128 million).
- d. Freehold land amounting to SR 135 million (2019G: SR 135 million), mainly relates to infrastructure and operating assets.
- e. During the year ended 31 December 2020G, the Group has recognised an impairment loss, amounting to SR 153.2 million (2019G: SR 0.17 million).

Impairment charge for the year has been allocated as follows:

	31 December 2020G SR'000	31 December 2019G SR'000
Cost of revenue (note 8)	97,029	-
Others	56,167	167
	153,196	167

- f. Property and equipment with the gross carrying amount of SR 320 million (2019G: SR 272 million) are fully depreciated but are still in use.
- g. As at 31 December 2020G, an amount of SR Nil (2019G: SR 96.8 million) was capitalized as borrowing cost for the construction of property and equipment.
- h. The Group has transferred certain costs from / to property and equipment and investment properties based on the change in the intended use of such developments.

## 15. LEASES

### 15.1 Right-of-use assets

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

Buildings	3-10 years
Heavy equipment & machinery	3-4 years
Motor vehicles	2-4 years

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2020G

## 15. LEASES (continued)

### 15.1 Right-of-use assets (continued)

	Buildings	Heavy equipment & machinery	Motor Vehicles	Total
	SR'000	SR'000	SR'000	SR'000

**Cost:**

Balance as at 1 January 2020G	105,583	54,067	6,424	166,074
Additions	-	1,207	-	1,207
Reduction in rentals	-	(2,438)	-	(2,438)
Balance as at 31 December 2020G	105,583	52,836	6,424	164,843

**Accumulated depreciation:**

As at 1 January 2020G	15,502	33,862	3,378	52,742
Charge for the year	11,610	14,447	1,794	27,851
As at 31 December 2020G	27,112	48,309	5,172	80,593

**Net book value:**

As at 31 December 2020G	78,471	4,527	1,252	84,250
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	Buildings	Heavy equipment & machinery	Motor Vehicles	Total
	SR'000	SR'000	SR'000	SR'000

**Cost:**

Balance as at 1 January 2019G	103,710	52,561	6,424	162,695
Additions	1,873	1,506	-	3,379
Balance as at 31 December 2019G	105,583	54,067	6,424	166,074

**Accumulated depreciation:**

As at 1 January 2019G	4,100	17,228	1,200	22,528
Charge for the year	11,402	16,634	2,178	30,214
As at 31 December 2019G	15,502	33,862	3,378	52,742

**Net book value:**

As at 31 December 2019G	90,081	20,205	3,046	113,332
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Depreciation charge for the year has been allocated as follows:

	31 December 2020G SR'000	31 December 2019G SR'000
Cost of revenue	24,968	27,492
Others	2,883	2,722
	27,851	30,214

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2020G

## 15. LEASES (continued)

### 15.2 Lease Liabilities

At 31 December, the lease liabilities are presented in the consolidated statement of financial position as follows:

	31 December 2020G SR'000	31 December 2019G SR'000
Non-current portion	51,319	80,625
Current portion	40,799	33,013
	92,118	113,638

#### Movement of lease liabilities:

	31 December 2020G SR'000	31 December 2019G SR'000
As at 1 January	113,638	132,775
Additions	1,207	3,379
Reduction in rentals	(2,438)	-
Financial charges (note 11)	3,958	5,265
Repayments	(24,247)	(27,781)
As at 31 December	92,118	113,638

The aging of minimum lease payments together with the present value of minimum lease payments, as of 31 December, are as follows:

	2020G		2019G	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
	(SR'000)	(SR'000)	(SR'000)	(SR'000)
Within twelve months	52,819	40,799	37,501	33,013
One to five years	38,617	31,980	54,502	44,584
More than five years	20,572	19,339	39,964	36,041
Total minimum lease payments	112,008	92,118	131,967	113,638
Less: financial charges	(19,890)	-	(18,329)	-
Present value of minimum lease payments	92,118	92,118	113,638	113,638

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2020G

## 16. INVESTMENT PROPERTIES

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

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

	Land	Buildings	Leasehold improvements	Infrastructure assets	Capital work in progress (CWIP)	Total 2020G
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000

### Cost:

At the beginning of the year	2,820,859	941,045	945	432,008	1,121,456	5,316,313
Additions	-	74	-	-	12,094	12,168
Disposals	(803)	(6,624)	-	-	(1,201)	(8,628)
Transfers to development properties (note 19)	-	-	-	-	(65,008)	(65,008)
Impairment (note (c) below and note 40)	-	(25,469)	-	-	-	(25,469)
At the end of the year	2,820,056	909,026	945	432,008	1,067,341	5,229,376

### Depreciation:

At the beginning of the year	-	167,628	945	102,680	-	271,253
Charge for the year	-	37,488	-	15,680	-	53,168
Disposals	-	(1,322)	-	-	-	(1,322)
At the end of the year	-	203,794	945	118,360	-	323,099

### Net book value

At 31 December 2020G	2,820,056	705,232	-	313,648	1,067,341	4,906,277
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EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2020G

## 16. INVESTMENT PROPERTIES (continued)

	Land	Buildings	Leasehold improve- ments	Infrastruc- ture assets	Capital work in progress (CWIP)	Total 2019G
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000

### Cost:

At the beginning of the year	2,825,207	945,217	945	435,530	1,196,711	5,403,610
Additions	-	4,636	-	520	101,401	106,557
Disposals	(804)	(13,101)	-	(4,042)	(33)	(17,980)
Transfers to property and equipment (note 14)	-	(169,679)	(6,944)	-	-	(176,623)
Transfers to development properties (note 19)	(3,544)	-	-	-	-	(3,544)
Transfers	-	169,679	6,944	-	(176,623)	-
Reversal of impairment on disposal	-	4,293	-	-	-	4,293
At the end of the year	2,820,859	941,045	945	432,008	1,121,456	5,316,313

### Depreciation:

At the beginning of the year	-	136,817	945	82,817	-	220,579
Charge for the year	-	32,345	-	20,629	-	52,974
Disposals	-	(1,534)	-	(766)	-	(2,300)
At the end of the year	-	167,628	945	102,680	-	271,253

### Net book value

At 31 December 2019G	2,820,859	773,417	-	329,328	1,121,456	5,045,060
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## EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020G

**16. 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 25). 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 2,465 million (2019G: SR 2,466 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 27(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 27(b)). Greenfield land, measuring 15.95 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 2020G, 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 Taqueem (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 (discount rate 13%), 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 (discount rate 12.5%, yield 7% to 12.5%) 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 neighborhood. 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	Level 2	Level 3	Total
	SR'ooo	SR'ooo	SR'ooo	SR'ooo
31 December 2020G	-	-	40,484,239	40,484,239
31 December 2019G	-	-	47,412,867	47,412,867

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.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
 For the year ended 31 December 2020G

## 16. INVESTMENT PROPERTIES (continued)

The 31 December 2020G valuations contain a material valuation uncertainty clause by the external valuers due to the market disruption caused by the COVID-19 pandemic, which resulted in a reduction in transactional evidence and market yields. This clause does not invalidate the valuation but implies that there is substantially more uncertainty than under normal market conditions. The valuation of properties takes into account the level of pandemic, related economic impact, expected recovery including occupancy and earning levels of properties. As a result of the continued uncertainty, these assumptions may be revised significantly in 2021G.

- c. During the year ended 31 December 2020G, the Group has recognised an impairment loss, amounting to SR 25.4 million.
- d. The Group has transferred certain costs from / to property and equipment and investment properties based on the change in the intended use of such developments.
- e. Following is the breakup of investment properties, held for various purposes:

	31 December 2020G	31 December 2019G
	SR'000	SR'000
Rental income	2,086,221	2,224,201
Currently undetermined future use	2,820,056	2,820,859
	4,906,277	5,045,060

- f. As at 31 December 2020G, an amount of SR Nil (2019G: 23.94 million) was capitalized as cost of borrowing for the construction of investment properties.
- g. The Group has transferred certain costs from investment properties to development properties based on the change in the intended use of such developments.

## 17. INTANGIBLE ASSETS

The movement in the intangible assets is as follows:

	31 December 2020G SR'000	31 December 2019G SR'000
<b>Cost:</b>		
At the beginning of the year	103,486	99,107
Additions	3,455	4,379
At the end of the year	106,941	103,486
<b>Amortization:</b>		
At the beginning of the year	90,970	80,491
Charge for the year	8,094	10,479
At the end of the year	99,064	90,970
<b>Net book value</b>	<b>7,877</b>	<b>12,516</b>

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
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For the year ended 31 December 2020G

## 18. INVESTMENT IN EQUITY ACCOUNTED INVESTEEES

	Effective ownership interest (%)		Balance as at	
	31 December 2020G	31 December 2019G	31 December 2020G	31 December 2019G
			SR'000	SR'000
Investment in Ports Development Company ("PDC") (see note (a) below)	50%	50%	2,400,032	2,366,137
Investment in Biyoutat Progressive Company for Real Estate Investment & Development ("Biyoutat") (see note (b) below)	20%	20%	45,790	45,790
			2,445,822	2,411,927

### a) PORTS DEVELOPMENT COMPANY

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

	2020G	2019G
	SR'000	SR'000
Balance at the beginning of the year	2,366,137	2,376,775
Share of results for the year, net of Zakat charge	48,065	7,983
Share of other comprehensive loss	(14,170)	(18,621)
Balance at the end of the year	2,400,032	2,366,137

Quantitative information of PDC is as follows:

	31 December 2020G	31 December 2019G
	SR'000	SR'000
Non-current assets	8,002,064	8,004,904
Current assets	442,949	343,798
Non-current liabilities	(2,681,987)	(2,520,969)
Current liabilities	(381,735)	(516,293)
<b>Equity</b>	<b>5,381,291</b>	<b>5,311,440</b>
Group's share in equity – 50% (2019G: 50 %)	2,690,645	2,655,720
Elimination of share of profit on sale of land and commission income	(290,613)	(287,714)
Adjustments related to piecemeal acquisition and share of Zakat	-	(1,869)
<b>Group's carrying amount of the investment</b>	<b>2,400,032</b>	<b>2,366,137</b>



EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
 For the year ended 31 December 2020G

## 18. INVESTMENT IN EQUITY ACCOUNTED INVESTEEES (continued)

### a) PORTS DEVELOPMENT COMPANY (continued)

	31 December 2020G	31 December 2019G
	SR'ooo	SR'ooo
Revenue	430,019	327,763
<b>NET INCOME FOR THE YEAR</b>	<b>96,130</b>	15,966
Other comprehensive loss to be reclassified to profit or loss in subsequent years	(28,340)	(37,242)
Total comprehensive income / (loss) for the year	67,790	(16,882)
<b>Group's share of profit for the year, net of related Zakat charge</b>	<b>48,065</b>	7,983
<b>Group's share of other comprehensive loss for the year</b>	<b>(14,170)</b>	(18,621)

On 14 Jumada Awal 1431H (corresponding to 29 April 2010G), 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 2011G, 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 2012G, 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 2013G, the shareholders of PDC resolved to increase the shareholding of the Parent Company to 74%. The shareholders further amended the agreement on 16 April 2014G, reducing the shareholding of the Parent Company in PDC to 51%. On 17 July 2014G, 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 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 1,321 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 a pledge of the shares of the Company in PDC.

The Company has provided a corporate guarantee to a commercial bank, limited to SR 112.5 million plus any Murabaha profits due to be paid by the PDC, to allow PDC to secure Shariah compliant commodity Murabaha facilities, having a maximum limit of SR 180 million. During the year ended 31 December 2017G, PDC availed the subject Murabaha facility, amounting to SR 150 million, to finance its working capital requirements. The subject facility has been increased to SR 180 million during 2018G. In this connection, the Company had also provided promissory notes, amounting to SR 75 million, which has been increased to SR 90 million during 2019G, plus any Murabaha profits due to be paid by the PDC.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020G

**18. INVESTMENT IN EQUITY ACCOUNTED INVESTEEES (continued)****a) PORT DEVELOPMENT COMPANY (continued)**

During the year ended 31 December 2017G, PDC had 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 2020G, the subject Swap Contracts had a negative fair value of SR 107.1 million (2019G: SR 78.8 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 14.1 million (2019G: SR 18.6 million), within other comprehensive 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 2016G, 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 (Associate), 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 2016G, the Company sold a piece of land to Biyoutat, amounting to SR 54 million. Since Biyoutat has not yet 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 2020G SR'000	31 December 2019G 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

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2020G

## 19. DEVELOPMENT PROPERTIES

	31 December 2020G SR'000	31 December 2019G SR'000
		(Restated)
Costs incurred to-date	1,702,283	1,853,046
Transferred from investments properties (note 16)	65,008	3,544
	1,767,291	1,856,590
Transfers to cost of revenue (note 8)	(169,022)	(212,982)
Provision for development properties (note 8, 19.3 and 40)	(137,622)	-
	1,460,647	1,643,608
Current portion of development properties	(145,153)	(720,845)
Non-current portion of development properties	1,315,494	922,763

- 19.1. Development properties include land amounting to SR 160.62 million (2019G: SR 163.6 million).
- 19.2. The Group has transferred certain costs from investment properties to development properties based on the change in the intended use of such developments.
- 19.3. The Group carried out an assessment of net realizable value for development properties and recognized a provision, amounting to SR 137.6 million, during the year ended 31 December 2020G.

## 20. ACCOUNTS RECEIVABLES AND OTHER CURRENT ASSETS

	31 December 2020G SR'000	31 December 2019G SR'000
Gross accounts receivable	739,042	656,742
Less: Impairment loss on accounts receivable (see notes below)	(236,742)	(150,418)
	502,300	506,324
Contribution receivable	35,481	37,664
Prepayments	37,642	33,253
Advances to suppliers	17,383	17,501
Amounts due from related parties (note 32)	16,068	7,327
Commission receivable on Murabaha term deposits	1,088	1,641
Others	44,814	52,951
	654,776	656,661

**EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

For the year ended 31 December 2020G

**20. ACCOUNTS RECEIVABLES AND OTHER CURRENT ASSETS (continued)**

- a. As at 31 December 2020G, accounts receivable at nominal value of SR 236.7 million (2019G: SR 150.4 million) were impaired. The unimpaired accounts receivables include SR 400 million (2019G: SR 417 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. In addition to other collaterals in the form of promissory notes or bank guarantees, the minimum collateral against sale of property transaction is the market value of the property sold to the customer as the Group transfers property title to the customer only upon satisfactory receipt of the entire amount of the contract.
- b. Movements in the impairment loss on accounts receivable is as follows:

	31 December 2020G SR'000	31 December 2019G SR'000
At the beginning of the year	150,418	86,411
Provision for the year	86,324	64,007
At the end of the year	236,742	150,418

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

	Total	Neither	Past due and impaired				
		Past due nor impaired	< 30 days	30–60 days	61–90 days	91–180 days	> 180 days
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
31 December 2020G	739,042	47,560	19,155	13,600	21,987	75,239	561,501
31 December 2019G	656,742	34,759	28,308	12,109	14,448	51,009	516,109

- c. Future commitment of receivables against signed sales contracts as of 31 December 2020G, amounted to SR 1,371 million (2019G: SR 1,530 million).

**21. UNBILLED REVENUE**

Movements in the unbilled revenue is as follows:

	31 December 2020G SR'000	31 December 2019G SR'000
		(Restated)
At the beginning of the year	1,044,119	692,296
Revenue for the year	417,737	931,473
Billing raised during the year	(716,398)	(579,650)
	745,458	1,044,119
Current portion of unbilled revenue	(444,610)	(413,144)
Non-current portion of unbilled revenue	300,848	630,975

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2020G

## 22. MURABAHA TERM DEPOSITS WITH BANKS

	31 December 2020G SR'000	31 December 2019G SR'000
Murabaha deposits	147,358	279,806
Short-term Murabaha deposits (note 23)	(46,000)	(279,806)
	101,358	-

## 23. CASH AND CASH EQUIVALENTS

	31 December 2020G SR'000	31 December 2019G SR'000
Cash and bank balances	128,904	124,587
Short-term Murabaha deposits (see note below and note 22)	46,000	279,806
	174,904	404,393

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

The Company is required to maintain certain balances at 5% of amount collected from customers against off-plan sale of development properties which are deposited into escrow accounts. The balance as of 31 December 2020G amounted to SR 10.7 million (2019G: SR 30.3 million). These deposits/balances are not under lien.

**EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

For the year ended 31 December 2020G

**24. EMPLOYEES' RECEIVABLE – HOME OWNERSHIP SCHEME**

In accordance with the Group's policy, until 31 December 2016G, the Group used to sell built units to eligible employees under interest free finance lease arrangement for a period of twenty years. The gross value of the lease payments is recognized as a receivable under employee home ownership scheme. The difference between the gross receivable and the present value of the receivable is recognized as an unearned interest income.

	31 December	31 December	31 December	31 December	31 December	31 December
	2020G	2019G	2020G	2019G	2020G	2019G
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
	Gross receivable		Present value of gross receivable		Unearned interest income	
Current portion	7,785	7,213	4,214	3,906	3,571	3,307
<b>Non-current portion:</b>						
One to five years	31,140	28,853	18,454	17,050	12,686	11,803
Over five years	86,708	86,529	67,417	67,595	19,291	18,934
	117,848	115,382	85,871	84,645	31,977	30,737
	125,633	122,595	90,085	88,551	35,548	34,044

**25. SHARE CAPITAL**

The Parent Company's share capital is divided into 850 million shares of SR 10 each (2019G: 850 million shares of SR 10 each), allocated as follows:

	2020G		2019G	
	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 16(a))	170,000	1,700,000	170,000	1,700,000
	850,000	8,500,000	850,000	8,500,000

**26. STATUTORY RESERVE**

In accordance with the By-laws, approved by the shareholders during April 2017G, 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.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
 For the year ended 31 December 2020G

## 27. LONG-TERM LOANS

	31 December 2020G SR'000	31 December 2019G SR'000
Ministry of Finance ("MoF") loan (see note (a) below)	5,000,000	5,000,000
Others (see note (b) below)	3,101,411	3,113,750
	8,101,411	8,113,750
Current portion of long-term loans (see note (a) and (b) below)	(2,626,250)	(1,557,500)
Non-current portion of long-term loans	5,475,161	6,556,250

- a. During 2011G, the Parent Company received a loan of SR 5,000 million from the Ministry of Finance ("MoF") for the development of KAEC. The loan is secured against pledge of 24.7 million sqm of the Greenfield land and carries annual commission at commercial rates and was originally repayable, with a three years grace period, in seven annual instalments commencing from September 01, 2015G. However, based on the Group's request submitted before the due date, the MoF, during September 2015G, had rescheduled the loan by extending the grace period for an additional period of five years. During January 2020G, based on the discussions held with the Ministry of Finance, the MoF has rescheduled the first instalment due in June 2020G to January 2021G. Hence, the principal amount is now repayable in seven instalments, commencing from January 2021G, with accrued commission payable on an annual basis.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020G

## 27. LONG-TERM LOANS (continued)

- b. During 2014G, 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 2020G, amounted to SR 976.25 million (31 December 2019G: SR 976.25 million). As per the terms of the agreement, the loan is repayable in eight bi-annual instalments from June 30, 2018G to 31 December 2021G. The instalments due within twelve-months, amounting to SR 976.25 million, are classified as a current liability. The loan is secured against part of KAEC's greenfield land, having a value of SR 1,669 million, based on current outstanding exposure, held by the Parent Company, and an order note for SR 1,642.5 million as per the last revised Facilities Letter Agreement.

During 2015G, 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 2020G, amounted to SR 437.5 million (31 December 2019G: SR 437.5 million). As per the terms of the agreement, the loan is repayable in eight bi-annual instalments from 20 October 2019G to 20 April 2023G. The instalments due within twelve-months, amounting to SR 250 million, are 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 92% 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 2014G and 2015G, 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 subject loan facilities, as at 31 December 2020G, amounted to SR 1,700 million (31 December 2019G: SR 1,700 million). As per the terms of the agreements, the loan terms are door to door eight years with three 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 three years of the loan. During the period ended 31 December 2020G, the Company has signed revised facility agreement with the commercial bank for the outstanding facility amounting to SR 1,700 million. Hence, the principal amount is now repayable after a grace period of 3 years from 2020G to 2022G, in multiple unequal semi-annual instalments from 2023G to 2030G. The loan facilities are secured against part of KAEC's greenfield land for a total required value of SR 3,000 million. Moreover, the subject loan facilities are further secured by order note of SR 1,700 million.

Furthermore, discussions regarding the restructuring of the loans, debt to equity conversion and repayment plans with other lenders are already in progress. For details, please refer to note 3.

## 28. SHORT-TERM LOANS

During 2018G, the Company has availed a short-term facility from a commercial bank, amounting to SR 250 million, carrying commission at prevailing commercial rates, to finance the working capital requirements. The subject loan facility was reduced to SR 200 million during the year 2019G, bifurcated into SR 170 million for the working capital and SR 30 million for the Documentary Credit ("DC") facility, and is secured by a promissory note of SR 200 million. The outstanding balance of the working capital and DC facility, as at 31 December 2020G, amounted to SR 170 million (31 December 2019G: SR 170 million) and SR Nil (31 December 2019G: SR 3.7 million), respectively. During the period ended 31 December 2020G, the Group has signed a revised FLA for working capital facility amounting to SR 170 million, restructured to a medium term loan, and to be repaid in 8 equal semi-annual instalments over 4 years starting 28 February 2021G, together with specific security collaterals and covenants. Pledging of the plots identified as collateral was completed subsequent to the year end.



**EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

For the year ended 31 December 2020G

**28. SHORT-TERM LOANS (continued)**

Moreover, from an existing short-term facility of SR 400 million from another bank, the Company has availed SR 150 million during the year 2019G to finance the working capital requirements. The subject loan facility carries commission at prevailing commercial rates and is secured by the order note of SR 1,642.5 million. The outstanding balance of the working capital and DC facility, as at 31 December 2020G, amounted to SR 150 million (31 December 2019G: SR 150 million) and SR 66 million (31 December 2019G: SR 42.7 million), respectively.

In addition to the above, the Company has also availed a short-term facility of SR 95 million from another commercial bank, at prevailing commercial rates, bifurcated into SR 50 million for the working capital and SR 45 million for the DC facility. The outstanding balance of the working capital and DC facility, as of 31 December 2020G, amounted to SR 50 million (31 December 2019G: SR Nil) and SR 37 million (31 December 2019G: SR Nil), respectively.

**29. 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 2020G SR'000	31 December 2019G SR'000
Balance at the beginning of the year	63,868	64,220
<b>Included in consolidated statement of profit or loss</b>		
Current service cost	14,032	14,421
Interest cost	1,898	2,813
	15,930	17,234
<b>Included in consolidated statement of other comprehensive income</b>		
<b>Remeasurement gain arising from:</b>		
Financial assumptions	(156)	(448)
Experience adjustments	(3,396)	(4,362)
Actuarial gain	(3,552)	(4,810)
Benefits paid	(14,309)	(12,776)
Balance at the end of the year	61,937	63,868

**Actuarial assumptions**

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

	2020G	2019G
Discount rate	3.0%	2.97%
Expected rate of future salary increase	3.5%	3.5%
Mortality rate	1.17%	1.17%
Employee turnover rate	Age & service based - Moderate	Age & service based - Moderate
Retirement age	60 years	60 years

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2020G

## 29. EMPLOYEES' TERMINAL BENEFITS (continued)

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

	Change in assumption by	Impact on ETB liability Increase / (decrease)			
		31 December 2020G		31 December 2019G	
		Increase in rate	Decrease in rate	Increase in rate	Decrease in rate
		SR'000	SR'000	SR'000	SR'000
Discount rate	1%	(4,856)	5,599	(5,096)	5,881
Expected rate of future salary increase	1%	5,513	(4,878)	5,789	(5,118)
Mortality rate	10%	(16)	16	(17)	17
Employee turnover rate	10%	(540)	578	(579)	620

## 30. ACCOUNTS PAYABLE AND ACCRUALS

	31 December 2020G SR'000	31 December 2019G SR'000
Trade accounts payable	363,630	340,256
Accrued financial charges	338,459	218,024
Retentions payable	251,063	284,772
Accrued expenses and other payables	250,848	154,083
Contract cost accruals	187,228	132,223
Advances from customers	64,556	94,069
Amounts to be donated for charitable purposes (see note below)	41,059	44,321
Amounts due to related parties (note 32)	4,558	15,106
VAT payable	-	3,737
Unearned interest income - Home Ownership Scheme (note 24)	3,571	3,307
Unearned income	5,448	15,210
	1,510,420	1,305,108

The Board of Directors decided in 2006G 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.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2020G

### 31. ZAKAT

#### Charge for the current year / prior year

	31 December 2020G SR'000	31 December 2019G SR'000
Current year provision	35,000	45,000
Prior year provision	20,000	-
	55,000	45,000

The provision for the year is based on the consolidated Zakat base of the Group.

#### Movement in provision

The movement in the Zakat provision is as follows:

	31 December 2020G SR'000	31 December 2019G SR'000
At the beginning of the year	121,816	156,843
Charge for the current year	35,000	45,000
Charge for the prior year	20,000	-
Payments during the year	(68,129)	(80,027)
At the end of the year	108,687	121,816

#### Status of assessments

##### The Parent Company – Emaar The Economic City

The General Authority of Zakat and Tax ("GAZT") issued Zakat assessment for the years 2006G to 2008G and claimed additional Zakat and Withholding tax (WHT) of SAR 90.4 million in addition to delay fines on the WHT. In compliance with the appeal procedures and without admitting the liability, EEC submitted a bank guarantee and paid under protest the WHT difference.

The BOG did not accept the grievance on the Zakat from the "form" point of view. EEC filed a plea to the Royal court requesting the BOG to reconsider the verdict and restudy the case. The BOG did not accept the plea and they maintained the previous decision.

During 2019G, the GAZT has issued letter for collection of additional Zakat liability of SR 86.6 million related to the years 2006G to 2008G. EEC has settled 20% and 43% of the total liability in the year 2019G and 2020G respectively. Furthermore, the GAZT has agreed to allow the payment of balance liability in instalments.

The WHT case was also under the review at the BOG. A decision was issued supporting EEC's objection related to delay fine. The GAZT has filed an appeal with the Royal court against the BOG's decision in respect of delay fine, which is pending adjudication.

EEC has settled the additional Zakat liabilities and finalized assessments for the years 2009G to 2011G. The Company has filed the returns of the years 2012G, 2013G and 2019G. The GAZT has issued zakat certificate for 2019G valid until 30 April 2021G.

The GAZT issued Zakat assessment for the year 2014G and claimed additional Zakat of SAR 67.7 million. EEC filed an appeal against the GAZT's assessment and the GAZT has issued a revised assessment on 8 October 2020G with reduced Zakat liability of SR 33 million. The Company has filed an appeal against the revised assessment with the General Secretariat of Tax Committees (GSTC).

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020G

**31. ZAKAT (continued)**

The GAZT has also issued Zakat assessments dated 23 November 2020G for the years 2015G to 2018G with additional Zakat liabilities of SR 254 million. EEC has filed an appeal against the GAZT's assessment. Subsequent to the year end, on 24 February 2021G, GAZT has issued a revised assessment with reduced zakat liability of SR 247 million. The Company is reviewing the revised assessment and is likely to file an appeal with the Tax Violations Dispute Resolution Committee (TVDRRC).

EEC has requested the GAZT for instalments to pay the remaining balance of SR 31.5 million for the years 2006G to 2008G and for the zakat liability of SAR 44.3 million related to the year 2019G. The GAZT has allowed EEC to settle outstanding liability of SAR 75.8 million in ten (10) equally monthly instalments of SAR 7.5 million each starting from August 2020G. EEC has already settled four instalments due from August until November 2020G and requested the GAZT for deferment of instalments due in December 2020G and January 2021G, which has been duly accepted by the GAZT. Subsequent to the year end, EEC has settled the instalment falling due in the month of February 2021G.

**Subsidiaries – ECHIC, IZDCL, REOM, REM, RED and EKC**

ECHIC finalized its assessment up to 2012G and filed the Zakat / information returns up to the years 2019G. The GAZT has issued Zakat certificate for the year 2019G, valid until 30 April 2021G.

IZDCL finalized its Zakat status up to 2012G. The GAZT issued Zakat assessment for the years 2013G to 2015G and claimed additional Zakat of SAR 4.6 million. IZDCL has objected against the GAZT assessment, providing the supporting documents for its position. The GAZT has transferred the case to the GSTC and IZDCL has also registered an appeal on GSTC's portal. The Tax Violations Dispute Resolution Committee (TVDRRC) conducted the hearing session on 22 October 2020G and rendered its decision on 22 December 2020G, rejecting IZDCL's appeal. IZDCL has filed an appeal against the TVDRRC's decision with the Tax Violations Dispute Appellate Committee (TVDAC).

IZDCL has filed the Zakat / information returns up to the years 2019G. The GAZT has issued Zakat certificate for the year 2019G, valid until 30 April 2021G.

RED has filed the zakat / information returns up to the years 2019G. The GAZT has issued final Zakat certificates for the year 2019G, valid until 30 April 2021G. The GAZT issued Zakat assessments dated 29 November 2020G for the years 2015G to 2017G with additional Zakat liabilities of SR 72.45 million. RED filed an appeal against the assessment and the GAZT issued their decision on 10 March 2021G, rejecting RED's appeal on technical grounds. The Company is reviewing the revised assessment and is likely to file an appeal with the Tax Violations Dispute Resolution Committee (TVDRRC).

REOM, REM and EKC filed the Zakat / information returns up to the years 2019G. The GAZT has issued final Zakat certificates for the year 2019G, valid until 30 April 2021G.

**32. RELATED PARTY TRANSACTIONS**

The Company, in the normal course of business, enters into transactions with other entities that fall within the definition of a related party contained in International Accounting Standard 24. 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 that were no more favourable than those available or which reasonably be expected to be available in similar transactions with non related parties i.e., equivalent to those that prevail in arm's length transactions. In addition to note 18, following are the significant related party transactions during the period and the related balances:

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### 32. RELATED PARTY TRANSACTIONS (continued)

Related party	Nature of transactions	Amounts of Transactions		Balance as at	
		2020G	2019G	31 December 2020G	31 December 2019G
		SR' 000	SR' 000	SR' 000	SR' 000

#### Amounts due from related parties

Other related parties	Lease rentals, utilities, service charges and other	2,354	4,616	721	3,211
	Sale of properties	14,181	5,640	3,089	1,650
Joint Venture	Lease rentals and utilities charges	10,850	1,497	11,653	971
Key management personnel	Sale of properties, utilities and service charges	-	1,179	261	895
	Lease rentals	414	222	344	222
Board of directors	Sale of properties, utilities and service charges	-	164	-	231
	Lease rentals	316	147	-	147
<b>Total</b>				16,068	7,327

#### Amounts due to related parties

Other related parties	Expenses incurred on behalf of the Group	-	-	-	(2,619)
	Services provided to the Group	3,145	389	(3)	(415)
	Advance against sale of properties and leased units	-	-	-	(7,961)
	Purchase of goods	-	20	-	-
Other related parties with significant influence	Expenses incurred on behalf of the Group	11	-	(455)	(89)
Key management personnel	Remuneration	9,973	16,263	-	-
Board of directors	Remuneration and meeting fees	4,100	4,003	(4,100)	(4,003)
	Advance received against services	-	-	-	(19)
<b>Total</b>				(4,558)	(15,106)

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
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### 32. RELATED PARTY TRANSACTIONS (continued)

#### Compensation of key management personnel of the Group

	31 December 2020G	31 December 2019G
	SR' 000	SR' 000
Short-term employee benefits	8,830	13,159
Non-monetary benefits	384	346
Post-employment benefits	752	1,347
Termination benefits	7	1,411
	9,973	16,263
Amount due to key management personnel	752	7,901

### 33. CONTINGENT LIABILITIES AND COMMITMENTS

In addition to disclosure set out in notes 18, 27 and 31, contingent liabilities and commitments, as at 31 December 2020G, are described as below:

- The Group has outstanding commitments related to future expenditure for the development of KAEC in coming few years, amounting to SR 649 million (31 December 2019G: SR 781 million).
- The Group, from time to time, is a defendant in lawsuits, which mainly represent commercial disputes. The management and the legal counsel expects a favourable outcome of all the pending litigation against the Group. Accordingly, no provision has been made in these consolidated financial statements.
- A Government entity requested the Company to share the costs incurred by the Government entity on account of re-routing the Haramain High Speed Railway via King Abdullah Economic City. The Company provided the details of the costs already incurred by it pertaining to this project that included the value of land contributed by the Company for the train station, costs incurred for the station access bridge and other associated infrastructure costs. The management is under discussion with the Government entity, supported by the Economic Cities and Special Zones Authority, and expects a favorable outcome. Hence no provision has been made in these consolidated financial statements.
- Operating lease commitments:

#### 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 2020G	31 December 2019G
	SR' 000	SR' 000
Within one year	47,496	49,112
After one year but not more than five years	186,255	191,348
More than five years	516,970	574,169
	750,721	814,629

**EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

For the year ended 31 December 2020G

### 34. 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.

#### Operating 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.

The Executive Leadership Team is the Chief Operating Decision Maker (CODM) and monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

#### Segments related Revenue and Profitability

	Residential business	Industrial development	Hospitality and leisure	Others	Adjustments and eliminations	Total
For the year ended:	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
<b>31 December 2020G</b>						
<b>Revenue</b>						
External customers	92,633	281,810	98,196	74,648	-	547,287
Inter-segment	17,631	6,442	31,666	91,569	(147,308)	-
	110,264	288,252	129,862	166,217	(147,308)	547,287
<b>Results</b>						
Cost of inventories and services recognised as an expense	(459,319)	(48,495)	(29,009)	(64,099)	109,911	(491,011)
Impairment loss	(84,046)	-	(10,393)	(73,521)	-	(167,960)
Financial charges	(221)	(8,015)	(4,108)	(303,224)	-	(315,568)
Murabaha deposit income	5	-	-	2,531	-	2,536
Depreciation	(50,190)	(24,275)	(88,590)	(178,857)	-	(341,912)
Amortisation	(426)	-	(21)	(7,647)	-	(8,094)
Share of results of equity accounted investee	-	-	-	48,065	-	48,065
Other income / (expenses)	(49,695)	(3,887)	(83,469)	(329,656)	-	(466,707)
Loss before Zakat						(1,193,364)

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2020G

## 34. SEGMENTAL INFORMATION (continued)

### Operating Segments (continued)

For the year ended:	Residential business	Industrial development	Hospitality and leisure	Others	Adjustments and eliminations	Total
	SR'ooo	SR'ooo	SR'ooo	SR'ooo	SR'ooo	SR'ooo
<b>31 December 2019G</b>						
<b>Revenue</b>						
External customers	500,462	300,803	73,856	71,686	-	946,807
Inter-segment	15,001	4,651	31,634	97,807	(149,093)	-
	515,463	305,454	105,490	169,493	(149,093)	946,807
<b>Results</b>						
Cost of inventories and services recognised as an expense	(193,785)	(58,460)	(17,435)	(65,578)	109,810	(225,448)
Impairment loss	(493)	-	(3,564)	(55,824)	-	(59,881)
Financial charges	(300)	-	(4,424)	(264,012)	-	(268,736)
Murabaha deposit income	56	113	6	616	-	791
Depreciation	(49,523)	(23,846)	(85,264)	(191,312)	-	(349,945)
Amortisation	(235)	-	(20)	(10,224)	-	(10,479)
Share of results of equity accounted investee	-	-	-	7,983	-	7,983
Other income / (expenses)	(107,686)	14,209	(96,440)	(339,566)	-	(529,483)
Loss before Zakat						(488,391)

## 35. 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:

- Credit risk;
- Commission rate risk;
- Currency risk; and
- 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.



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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020G

### 35. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

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.

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, lease liabilities, 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 the following 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.

Customer credit risk is assessed by the Group according to the Group's established policy, procedures and controls relating to customer credit risk management. Credit quality of a customer is assessed based on a credit rating process.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for various customer segments with similar loss patterns. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors (such as GDP forecast and industry outlook) affecting the ability of the customers to settle the receivables. The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

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 13% (2019G: 11.5%) of outstanding accounts receivable as at 31 December 2020G. Payment term varies from product to product with some exceptions at the customer level.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2020G

## 35. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

### a) Credit risk (continued)

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.

Credit risk from balances with banks and financial institutions is managed by Group's treasury in accordance with the Group's policy. The Group limits its exposure to credit risk by only placing balances with international banks and local banks of good repute. Given the profile of its bankers, management does not expect any counterparty to fail in meeting its obligations.

The Group's gross maximum exposure to credit risk at the reporting date is as follows:

	31 December 2020G SR'000	31 December 2019G SR'000
Accounts receivables and other current assets	834,555	756,325
Murabaha term deposits with banks	101,358	-
Cash at bank	173,759	403,413
	1,111,610	1,159,738

### 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. In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

### 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.

### 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:

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2020G

### 35. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

#### b) Commission rate risk (continued)

##### Commission rate sensitivity (continued)

	Increase/decrease	Effect on profit
	in basis points	before Zakat
		SR'ooo
2020G	+100	(81,013)
	-100	81,013
2019G	+100	(81,138)
	-100	81,138

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.

The weighted average rate for the Group's term loans is 3.4% (approx).

#### 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 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 Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank borrowings. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and borrowing facilities, by continuously monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Discussions regarding the restructuring of the loans and repayment plans are already in progress with the respective banks (refer note 3).

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

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2020G

### 35. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

#### d) Liquidity risk (continued)

31 December 2020G	Less than 12 months	More than 12 months	Total
	SR'000	SR'000	SR'000
Loans	3,099,183	5,475,161	8,574,344
Lease liabilities	52,819	59,189	112,008
Accounts payable and accruals	1,432,286	-	1,432,286
	4,584,288	5,534,350	10,118,638

31 December 2019G	Less than 12 months	More than 12 months	Total
	SR'000	SR'000	SR'000
Loans	1,923,898	6,556,250	8,480,148
Lease liabilities	37,501	94,466	131,967
Accounts payable and accruals	1,173,675	-	1,173,675
	3,135,074	6,650,716	9,785,790

### 36. 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 2020G, the Group's gearing ratio is 59% (2019G: 54%).

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 2020G and 31 December 2019G.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020G

**37. 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 in level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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 2020G and 31 December 2019G, the fair values of the Group's financial instruments are estimated to approximate their carrying values and are classified under level 3 of the fair value hierarchy. No significant inputs were applied in the valuation of accounts receivables as at 31 December 2020G and 31 December 2019G.

During the year ended 31 December 2020G, there were no movements between the levels.

**38. 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.

**39. MATERIAL SUBSIDIARIES**

The following table summarizes the statement of financial position of these subsidiaries as at 31 December 2020G. This information is based on the amounts before inter-company elimination.

	ECIHC	IZDCL	REOM	REM	RED
	SR'ooo	SR'ooo	SR'ooo	SR'ooo	SR'ooo
Total assets	3,951,916	1,422,776	1,445,244	467,093	1,943,767
Total liabilities	23,745	114,201	342,393	150,169	744,726
Total equity	3,928,171	1,308,575	1,102,851	316,924	1,199,041

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020G

### 39. MATERIAL SUBSIDIARIES (continued)

The following table summarizes the statement of financial position of the subsidiaries as at 31 December 2019G. This information is based on the amounts before inter-company elimination.

	ECIHC	IZDCL	REOM	REM	RED
	SR'ooo	SR'ooo	SR'ooo	SR'ooo	SR'ooo
Total assets	4,335,907	1,336,336	1,574,207	555,690	1,946,725
Total liabilities	22,714	112,948	309,604	127,347	571,916
Total equity	4,313,193	1,223,388	1,264,603	428,343	1,374,809

The following table summarizes the statement of profit and loss of these subsidiaries for the year ended 31 December 2020G. This information is based on the amounts before inter-company elimination.

	ECIHC	IZDCL	REOM	REM	RED
	SR'ooo	SR'ooo	SR'ooo	SR'ooo	SR'ooo
Revenue	151	161,867	109,148	34,036	12,459
(Loss) / profit for the year	(248,947)	101,266	(162,624)	(113,271)	(68,267)
Total comprehensive (loss) / income for the year	(245,347)	103,114	(161,752)	(111,419)	(69,637)

The following table summarizes the statement of profit and loss of these subsidiaries as at 31 December 2019G. This information is based on the amounts before inter-company elimination.

	ECIHC	IZDCL	REOM	REM	RED
	SR'ooo	SR'ooo	SR'ooo	SR'ooo	SR'ooo
Revenue	6,625	201,181	94,053	36,863	22,401
(Loss) / profit for the year	(96,264)	126,425	(108,311)	(32,356)	(81,154)
Total comprehensive (loss) / income for the year	(92,718)	126,052	(108,028)	(31,986)	(77,779)

### 40. IMPACT OF COVID-19

The coronavirus ("COVID-19"), which was declared as pandemic by the WHO during March 2020G, has spread across various geographies globally, causing disruption to business and economic activities. COVID-19 has brought about uncertainties in the global economic environment. The fiscal and monetary authorities, both domestic and international, have announced various support measures across the globe to counter possible adverse implications.

For most of the 2020G financial year, the Group's operations were severely impacted by the actions taken by governments to address the health impacts of the COVID-19 global pandemic. This included imposing travel restrictions and international and domestic border closures, which have significantly disrupted air travel. The COVID-19 Outbreak has impacted the Group across its segments (real estate, and hospitality) which is reflected in its financial results for the year ended 31 December 2020G.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020G

#### 40. IMPACT OF COVID-19 (Continued)

Given the scale of the outbreak, the Group has assessed the potential impacts of the outbreak on its operations due to the restrictions placed by various government institutions to curb or delay the spread of COVID-19. The Group has ensured to implement health and safety measures for its employees, customers, contractors and its communities. The Group operates mainly in development of real estate properties, wherein the Group expects that the outbreak would likely impact the prices and demand of properties. In the short term, the development initiatives and economic activity within the real estate sector continue to be constrained. The Group is closely monitoring the situation and has activated its business continuity planning and other risk management practices including rationalizing its operations, optimizing staff levels and operating cash and working closely with its suppliers and customers to minimize impact on revenue and costs to manage the potential business disruption COVID-19 outbreak may have on its operations and financial performance.

As the lockdown started to ease and travel recommenced in the second half of 2020G, the Group witnessed increased real estate sales, improved occupancy in hotels as compared to the initial time of the pandemic in the early part of 2020G. The Group's management continues to evaluate the current situation, including pricing strategy and cost optimization initiatives.

The Group carried out an impact assessment due to uncertainties caused by COVID-19, as at 31 December 2020G, as follows:

- **Provision for Expected credit losses ("ECLs") of accounts receivables**

The Group assesses the impairment of its financial assets carried at amortised cost based on the expected credit loss ("ECL") model. The ECL model was reassessed for the impact of COVID-19, volatility in potential economic conditions, the incidence of defaults, etc. which may likely lead to an increase in the ECL allowance for trade receivables in line with the requirements of IFRS 9 Financial Instruments. This is mainly due to an increase in the counterparty risk (risk of default) of tenants and customers. ECLs were estimated based on a range of forecast economic conditions as at 31 December 2020G and considering that the situation is fast evolving, the Group had taken the impact of volatility in the forward-looking macro-economic factors, when determining the severity and likelihood of economic scenarios for ECL determination. The Group updated the relevant forward-looking information with respect to the weightings of the relevant macroeconomic scenarios relative to the economic climate of the market in which it operates. Accordingly, the impact on the allowance for expected credit losses on accounts receivables amounted to SR 86.3 million during the year ended 31 December 2020G (see note 20). The Group will continue to monitor the situation and its impact on the ECL and make the necessary adjustments as and when required.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020G

## 40. IMPACT OF COVID-19 (Continued)

### • Impairment of non-financial assets

The Group's hospitality segment has been impacted from low occupancy levels and temporary closure resulting from steps taken by the Government to contain the COVID-19 outbreak. As the lockdown started to ease and travel recommenced in the second half of 2020G, the Group witnessed increased real estate sales, improved occupancy in hotels as compared to the initial time of the pandemic in the early part of 2020G. The key areas of assessment include estimates on the impact of future cash flows due to reduced occupancy and the discount rates, reflecting increased uncertainty. The Group assessed whether there are any indicators of impairment for all non-financial assets as at 31 December 2020G. The Group estimated the expected future cash flows from the asset or cash-generating units and used multiple, probability-weighted cash flow projections due to a fast evolving situation and considered the macroeconomic outlook to calculate the present value of those cash flows after applying a discount rate that reflects the current market assessment of the time value of money. The Group had engaged ValuStrat (Khabeer Altathmen Alaqaria), an independent valuer not related to the Group, for the fair valuation exercise of the Group's property and equipment and investment properties, as at 31 December 2020G. ValuStrat is a firm licensed by the Taqueem (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. The Group made an assessment of impairment of non-financial assets considering the degree of estimation uncertainty that existed in estimating the recoverable amount and the sensitivity of the recoverable amount to reasonably possible changes to key assumptions. As a result, the Group concludes that the expected drop in future cash flows from these assets is not significant to result in impairment loss on the non-financial assets, except for property and equipment, investment properties and development properties, as described below.

### • Property and equipment

Valuation of property and equipment is inherently subjective due to the unique characteristics of each property, its location, expected yield, revenue growth rate and discount rates reflecting increased uncertainty. During the year ended 31 December 2020G, the Group has recognised an impairment loss, amounting to SR 153.1 million. (see note 14).

### • Investment properties

Valuation of investment properties is inherently subjective due to the unique characteristics of each property, its location, expected yield, rental growth rate and discount rates reflecting increased uncertainty. During the year ended 31 December 2020G, the Group has recognised an impairment loss, amounting to SR 25.4 million. (see note 16).

### • Development properties

Development properties are stated at the lower of cost or net realisable value ("NRV"). NRV is assessed with reference to sales prices, estimated costs of completion and advances received, development plans and market conditions existing at the end of the reporting period and recent market transactions, where available. The management has considered COVID-19 outbreak indicators to assess the estimated realizable value of its development properties and the Group has recognised provision, amounting to SR 137.6 million, during the year ended 31 December 2020G (see note 19).



EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020G

#### 40. IMPACT OF COVID-19 (Continued)

- **Revenue and costs to complete the projects**

The Group reviewed the changes, if any, in the estimated cost to complete the projects and determined the cost attributable to revenue being recognized. These estimates included significant judgements and uncertainty related to the changes in the estimated cost of construction, variation orders, cost of meeting other contractual obligations to the customers, and other items as a result of volatility due to COVID 19. As a result, the Group has recognized change in project cost estimate amounting to SR 14.8 million during the year ended 31 December 2020G.

- **Income from the leasing and retail segment**

As part of Group's commitment to extend support to its tenants during COVID-19 outbreak, the Group has offered arrangements of rent reliefs to its certain tenants, which are accounted for in accordance with the requirements of IFRS 16 "Leases". In addition, the management considers that it is more appropriate to only recognise lease income to the extent that the lease income is considered to be collectible. This approach addresses the concern of recognizing income when collectability is uncertain.

The Group continues to assess the impact of Covid-19 on its operations. The Group considered potential impacts of the current economic volatility in the determination of the reported amounts of the Group's financial and non-financial assets, and these are considered to represent Management's best assessment based on the observable information. Markets, however, remain volatile, and the recorded amounts remain sensitive to market fluctuations.

However, the outbreak is evolving rapidly, due to which there is a material uncertainty around the expected duration and its potential impact on the overall economy and also on the operations of the Group. Consequently, it is challenging to assess the impact of such an evolving condition with certainty at this stage, considering the limited economic information available to determine the impact of the outbreak on the economy and on the real estate sector.

#### 41. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorized to issue by the Board of Directors on 31 March 2021G, corresponding to 18 Shaban 1442H.

**EMAAR THE ECONOMIC CITY**  
**(A Saudi Joint Stock Company)**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 31 December 2019G**  
**with**  
**INDEPENDENT AUDITOR'S REPORT**



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

## Independent Auditor's Report

To the Shareholders of Emaar The Economic City (A Saudi Joint Stock Company)

### 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 2019, 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 2019, 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 Auditor's 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.



## Independent Auditor's Report

To the Shareholders of Emaar The Economic City (A Saudi Joint Stock Company) (continued)

The key audit matter	How our audit addressed the key audit matter
<p><b>Revenue recognition</b></p> <p>Revenue is an important component of the Group's performance and profitability.</p> <p>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 is an item which requires significant audit attention, in particular consideration of:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• The total expected cost of completion of the projects</li> <li>• The likelihood of collection of remaining sales consideration</li> </ul> <p>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.</p>	<p>In responding to this key audit matter, our procedures included the following:</p> <ul style="list-style-type: none"> <li>• Obtained an 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.</li> <li>• Reviewed the contracts on a sample basis for the sale of properties, plots of land 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 under these contracts included the determination of whether the Group has an enforceable right to payment for performance completed to date.</li> <li>• 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 unsold units based on the relative area of the respective project.</li> <li>• Evaluated the Group's forecasting accuracy associated with the project costs and estimating costs to complete.</li> <li>• Assessed the likelihood of collection of sales consideration, as evidenced by bank guarantees and promissory notes.</li> <li>• Recalculated the revenue, on a sample basis, using the input method and compared it with the calculation performed by the management.</li> <li>• Assessed the appropriateness of the Group's revenue recognition accounting policies for recognizing revenue on sale of properties and the related disclosures in the consolidated financial statements.</li> </ul>



## Independent Auditor's Report

To the Shareholders of Emaar The Economic City (A Saudi Joint Stock Company) (continued)

The key audit matter	How our audit addressed the key audit matter
<p><b>Impairment review of investment properties and property and equipment</b></p> <p>The Group assesses indicators of impairment on its investment properties and property and equipment on an ongoing basis due to expected volatility in the market prices.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>Refer to note 4 to the consolidated financial statements for the accounting policy for impairment of non-current assets, note 13 &amp; 15 for disclosures related to property and equipment and investment properties, respectively.</p>	<p>In order to evaluate management's assessment of impairment, we performed the following:</p> <ul style="list-style-type: none"> <li>• Discussed with the management the process of identifying impairment indicators and results of the assessment.</li> <li>• Reviewed the appropriateness of management's identification of CGUs and the expected cash flows from CGUs, on a sample basis, and involved our internal valuation specialists to assess managements' impairment assessment, including reviewing the assumptions underlying the value in use calculations and performed retrospective review, 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 whether the source data used is mathematically accurate and reasonable by comparing the source data used in the valuation to the management reports.</li> <li>• Assessed the qualifications and expertise of the third party valuers, involved in the valuation of investment properties and reviewed the terms of their engagement to determine whether there were any matters that might have impacted their objectivity and</li> <li>• Assessed the appropriateness of the Group's accounting policies for impairment and the related disclosures in the consolidated financial statements.</li> </ul>



## Independent Auditor's Report

To the Shareholders of Emaar The Economic City (A Saudi Joint Stock Company) (continued)

### 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 auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's 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.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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.



## Independent Auditor's Report

To the Shareholders of Emaar The Economic City (A Saudi Joint Stock Company) (continued)

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

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 auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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



## Independent Auditor's Report

To the Shareholders of Emaar The Economic City (A Saudi Joint Stock Company) (continued)

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

**For KPMG Al Fozan & Partners**  
**Certified Public Accountants**

Ebrahim Oboud Baeshen  
License No. 382



Jeddah, 1 Shaban 1441H  
Corresponding to 25 March 2020



**EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)**
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**
**AND OTHER COMPREHENSIVE INCOME**

For the year ended 31 December 2019G

	Notes	2019G	2018G
		SR'ooo	SR'ooo
Revenue	6	986,888	1,008,234
Cost of revenue	7	(684,468)	(669,827)
GROSS PROFIT		302,420	338,407
<b>EXPENSES</b>			
Selling and marketing	8	(79,491)	(81,742)
General and administration	9	(290,652)	(263,584)
Impairment loss	13,15,19	(59,881)	(49,835)
Depreciation	13 (a), 14.1	(199,521)	(186,514)
Amortisation	16	(10,479)	(12,443)
LOSS FROM MAIN OPERATIONS		(337,604)	(255,711)
<b>OTHER INCOME / (EXPENSES)</b>			
Murabaha deposit income		791	7,737
Financial charges	10	(236,993)	(59,653)
Share of results of equity accounted investee	17 (a)	7,983	26,130
Other income, net	11	102,015	209,909
LOSS FOR THE YEAR BEFORE ZAKAT		(463,808)	(71,588)
Zakat	29	(45,000)	(66,000)
NET LOSS FOR THE YEAR		(508,808)	(137,588)
<b>OTHER COMPREHENSIVE (LOSS) / INCOME</b>			
<b>Items that will be reclassified to consolidated statement of profit or loss in subsequent periods:</b>			
Share of other comprehensive (loss) / income from equity accounted investee	17 (a)	(18,621)	7,744
<b>Items that will not be reclassified to consolidated statement of profit or loss in subsequent periods:</b>			
Re-measurement gain on defined benefit obligations	27	4,810	183
		(13,811)	7,927
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(522,619)	(129,661)
<b>NET LOSS FOR THE YEAR ATTRIBUTABLE TO:</b>			
Equity holders of the Parent Company		(508,808)	(135,085)
Non-controlling interests		-	(2,503)
		(508,808)	(137,588)
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO:</b>			
Equity holders of the Parent Company		(522,619)	(127,158)
Non-controlling interests		-	(2,503)
		(522,619)	(129,661)
<b>LOSS PER SHARE</b>			
Basic and diluted loss per share attributable to ordinary equity holders of the Parent Company (in SR per share)	12	(0.60)	(0.16)

The attached notes 1 to 39 form part of these consolidated financial statements.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019G

	Notes	2019G	2018G
		SR'000	SR'000
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	13	5,930,630	5,517,751
Right-of-use assets	14	113,332	-
Investment properties	15	4,994,177	5,132,148
Unbilled revenue	19(d)	714,912	209,123
Development properties	18	1,054,380	1,603,109
Intangible assets	16	12,516	18,616
Investment in equity accounted investees	17	2,411,927	2,422,565
Employees' receivable - Home Ownership Scheme	22	115,382	104,497
TOTAL NON-CURRENT ASSETS		15,347,256	15,007,809
CURRENT ASSETS			
Current portion of employees' receivable - Home Ownership Scheme	22	7,213	6,278
Unbilled revenue	19(d)	362,141	502,344
Development properties	18	790,126	411,098
Accounts receivables and other current assets	19	656,661	761,538
Murabaha term deposits with banks	20	-	50,000
Cash and cash equivalents	21	404,393	602,632
TOTAL CURRENT ASSETS		2,220,534	2,333,890
TOTAL ASSETS		17,567,790	17,341,699
EQUITY AND LIABILITIES			
EQUITY			
Share capital	23	8,500,000	8,500,000
Statutory reserve	24	11,536	11,536
Accumulated losses		(1,157,305)	(634,077)
TOTAL EQUITY		7,354,231	7,877,459

The attached notes 1 to 39 form part of these consolidated financial statements.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)  
As at 31 December 2019G

	Notes	2019G	2018G
		SR'000	SR'000
NON-CURRENT LIABILITIES			
Long-term loans	25	6,556,250	7,051,250
Lease liabilities	14	80,625	-
Employees' terminal benefits	27	63,868	64,220
Unearned financing component on long term receivables		98,244	69,493
Unearned interest income - Home Ownership Scheme	22	30,737	26,871
TOTAL NON-CURRENT LIABILITIES		6,829,724	7,211,834
CURRENT LIABILITIES			
Accounts payable and accruals	28	1,305,108	1,088,063
Accrued Zakat	29	121,816	156,843
Current portion of long-term loans	25	1,557,500	857,500
Short-term loans	26	366,398	150,000
Lease liabilities	14	33,013	-
TOTAL CURRENT LIABILITIES		3,383,835	2,252,406
TOTAL LIABILITIES		10,213,559	9,464,240
TOTAL EQUITY AND LIABILITIES		17,567,790	17,341,699

The attached notes 1 to 39 form part of these consolidated financial statements.

**EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)**
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**For the year ended 31 December 2019G**

	Attributed to equity holders of the Parent Company					Non-controlling interests	Total equity
	Share capital	Statutory reserve	Accumulated losses	Effect of reducing the ownership percentage in a subsidiary	Total		
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
Balance as at January 1, 2019G	8,500,000	11,536	(634,077)	-	7,877,459	-	7,877,459
Impact on initial application of IFRS 16 (note 5)	-	-	(609)	-	(609)	-	(609)
Adjusted balance as at January 1, 2019G	8,500,000	11,536	(634,686)	-	7,876,850	-	7,876,850
Net loss for the year	-	-	(508,808)	-	(508,808)	-	(508,808)
Other comprehensive loss for the year	-	-	(13,811)	-	(13,811)	-	(13,811)
Total comprehensive loss for the year	-	-	(522,619)	-	(522,619)	-	(522,619)
<b>Balance as at 31 December 2019G</b>	<b>8,500,000</b>	<b>11,536</b>	<b>(1,157,305)</b>	<b>-</b>	<b>7,354,231</b>	<b>-</b>	<b>7,354,231</b>
Balance as at 1 January 2018G	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 2018G	<b>8,500,000</b>	<b>11,536</b>	<b>(634,077)</b>	<b>-</b>	<b>7,877,459</b>	<b>-</b>	<b>7,877,459</b>

The attached notes 1 to 39 form part of these consolidated financial statements.

**EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)**
**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the year ended 31 December 2019G

	Notes	2019G	2018G
		SR'000	SR'000
OPERATING ACTIVITIES			
Loss for the year before Zakat		(463,808)	(71,588)
Adjustments to reconcile loss for the year before Zakat to net cash flows:			
Depreciation	13,14,15	349,945	292,991
Impairment loss	13,15,19	59,881	49,835
Amortization	16	10,479	12,443
Financial charges	10	236,993	59,653
Share of results of equity accounted investees	17	(7,983)	(26,130)
Murabaha deposit income		(791)	(7,737)
Unwinding of unearned interest income		(2,622)	(1,444)
Gain on disposal of investment properties	11	(30,826)	(84,114)
Gain on disposal of property and equipment		(140)	-
Employees' benefit expense – Home Ownership Scheme		6,979	10,335
Provision for development properties	18	-	(1,329)
Provision for employees' terminal benefits	27	17,234	15,113
		175,341	248,028
Working capital adjustments			
Employees' receivable – Home Ownership Scheme		(18,799)	(32,857)
Unbilled revenue, net		(365,586)	(287,812)
Development properties		191,079	(201,826)
Accounts receivables and other current assets		39,737	13,530
Other long-term receivables		-	24,059
Accounts payable and accruals		154,700	(14,154)
Net cash generated from / (used in) operations		176,472	(251,032)
Financial charges paid		(318,979)	(289,066)
Finance charges paid on lease liabilities		(5,265)	-
Zakat paid	29	(80,027)	(62,243)
Employees' terminal benefits paid	27	(12,776)	(3,468)
Net cash used in operating activities		(240,575)	(605,809)

The attached notes 1 to 39 form part of these consolidated financial statements.

**EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)**
**CONSOLIDATED STATEMENT OF CASH FLOWS (continued)**

For the year ended 31 December 2019G

	Notes	2019G	2018G
		SR'ooo	SR'ooo
INVESTING ACTIVITIES			
Investment in Murabaha term deposits		(8,860,894)	(13,758,746)
Murabaha term deposit encashment		8,910,894	14,232,856
Murabaha deposit income		1,924	7929
Additions to property and equipment		(378,910)	(392,516)
Additions to investment properties	15	(106,557)	(159,434)
Proceeds from sale of investment properties		46,506	-
Proceeds from disposal of property and equipment		140	-
Additions to intangible assets	16	(4,379)	(15,861)
Net cash used in investing activities		(391,276)	(85,772)
FINANCING ACTIVITIES			
Proceeds from loans		1,666,398	650,000
Repayments of loans		(1,245,000)	(591,250)
Movement in unearned interest income		35,239	7,653
Repayment of short term lease liabilities		(509)	-
Repayment of lease liabilities		(22,516)	-
Net cash generated from financing activities		433,612	66,403
DECREASE IN CASH AND CASH EQUIVALENTS		(198,239)	(625,178)
Cash and cash equivalents at the beginning of the year	21	602,632	1,227,810
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	21	404,393	602,632

The attached notes 1 to 39 form part of these consolidated financial statements.

**EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2019G

**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 03 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 No.
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**

The accompanying 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**

The accompanying 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.

As required by the Capital Market Authority ("CMA") through its circular dated 16 October 2016, the Group needs to apply the cost model to measure the property and equipment, investment properties and intangible assets upon adopting the IFRS for three years period starting from the IFRS adoption date.

On 31 December 2019G, CMA has examined the suitability of continuing to use the cost model or permitting the use of the fair value model or revaluation option and made the following decisions:

- Obligating listed companies to continue to use the cost model to measure property (IAS 16) and investment property (IAS 40) in the financial statements prepared for financial periods within fiscal years, which start before the calendar year 2022G.
- Allowing listed companies, the policy choice to use the fair value model for investment property subsequent to initial measurement or the policy choice to use the revaluation model for property (IAS 16) subsequent to initial recognition in the financial statements prepared for financial periods within fiscal years starting during the calendar year 2022G or thereafter.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2019G

## 2. BASIS OF PREPARATION (continued)

### 2.3 Functional and presentation currency

The Group's consolidated financial statements are presented in Saudi Arabian Riyals ("SR"), 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.

In determining the impact of variable consideration, the Group uses the "most-likely amount" method in IFRS-15 Revenue from Contracts with Customers whereby the transaction price is determined by reference to the single most likely amount in a range of possible consideration amounts.



EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2019G

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

#### Judgements (continued)

##### Extension options for leases

The Group has the option, under some of its leases to lease the assets for additional terms of one to five years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

##### Operating lease commitments - Group as lessor

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

##### Consolidation of subsidiaries

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

#### 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 27.

##### Provision for expected credit losses (ECLs) of accounts receivables

The Group uses a provision matrix to calculate ECLs for accounts receivables. The provision matrix is initially based on the Group's historically observed rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information at each reporting date. The assessment of the correlation between historically observed default rates, forecasted economic conditions and ECLs are significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customers' actual default in the future. The information about the ECL on the Group's accounts receivables is disclosed in note 19.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2019G

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

#### Estimations and assumptions (continued)

##### 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. Development properties are stated at the lower of cost and estimated net realisable value.

##### Leases - Estimating the incremental borrowing rate

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate ("IBR") is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms and conditions. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease.

##### Going concern

As at December 31, 2019G, the Group's current liabilities exceed the current assets by SR 1,163 million, primarily due to the long-term loan's current portion, falling due in next twelve months. The Group has additional approved facilities (refer note 25) and currently in the process to withdraw appropriate required amounts in the first half of 2020G.

Furthermore, discussions regarding the restructuring of the loans and repayment plans are already in progress with the respective banks. Moreover, subsequent to year-end, the Ministry of finance (MOF) has rescheduled the first instalment due on June 2020G to January 2021G. Consequently, the principal amount is now repayable in seven annual instalments, commencing from January 2021G, with accrued commission payable on an annual basis.

The Board of Directors has assessed the ability of the Group to continue as a going concern based on the operating plans and cash flow projections and is not aware of any material uncertainties that may cast significant doubts and the Board of Directors are satisfied that the Group has the resources to continue in the business and meet its obligations as they fall due in the ordinary course of business in the foreseeable future. Accordingly, the consolidated financial statements of the Group continue to be prepared on the going concern basis.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019G

## 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, except for the adoption of new standards effective as of 01 January 2019G (refer note 5).

### Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2019G. 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 investees;
- 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.

Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

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.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019G

**4. SIGNIFICANT ACCOUNTING POLICIES (continued)****Basis of Consolidation (continued)**

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)	
			2019G	2018G
Economic Cities Investments Holding Company ("ECIHC")	Kingdom of Saudi Arabia	2010	100%	100%
Industrial Zones Development Company Limited ("IZDCL")	Kingdom of Saudi Arabia	2011	100%	100%
Economic Cities Real Estate Properties Operation and Management Company ("REOM")	Kingdom of Saudi Arabia	2013	100%	100%
Economic Cities Pioneer Real Estate Management Company ("REM")	Kingdom of Saudi Arabia	2013	100%	100%
Economic Cities Real Estate Development Company ("RED")	Kingdom of Saudi Arabia	2013	100%	100%
Emaar Knowledge Company Limited ("EKC")	Kingdom of Saudi Arabia	2015	100%	100%

The financial statements of subsidiaries are prepared for the same reporting period using the same accounting framework as the Group. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

Pursuant to the resolutions passed by the shareholders of the above mentioned entities during 2018G, the Company has acquired remaining shareholdings in ECIHC, IZDCL, REOM, REM and RED. The legal formalities in respect of transfer of these shares for ECIHC were completed during the year and for RED, REM and REOM, these were completed subsequent to the year-end. For IZDCL, it is still in process.

Refer to note 17 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 and the same accounting framework as the Group.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2019G

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investment in equity accounted investees (associate and joint venture) (continued)

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:

- Expected to be settled in the normal operating cycle;
- Held primarily for the purpose of trading;
- Due to be settled within twelve months after the reporting period; or
- 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
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#### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Revenue recognition (continued)

##### 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.

If the consideration promised in a contract includes a variable amount, the Group shall estimate the amount of consideration to which the Group will be entitled in exchange for transferring the promised goods or services to a customer.

The promised consideration can vary if the Group's entitlement to the consideration is contingent on the occurrence or non-occurrence of a future event. An amount of consideration can vary due to discounts, rebates, refunds, credits, incentives, penalties or other similar items. The variability relating to the consideration promised by a customer, if any, is explicitly stated in the contract. Accordingly, the Group estimates the amount of variable consideration by using the most likely amount in accordance with the terms of the contract.

In respect of contracts with customers for sale of property, in addition to the five-step model, the Company satisfies a performance obligation and recognizes revenue over time, if one of the following criteria is met:

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#### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Revenue recognition (continued)

##### Revenue from contracts with customers for sale of properties (continued)

- 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.

##### Rental income

Rental income from investment properties 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

It comprises of 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.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
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## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Cost of revenue

Cost of revenue includes the cost of land, development and other service related costs. The cost of revenue is proportionate to sold units and is based on the cost incurred to-date 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 foreign payments as required under the Saudi Arabian Tax Laws. Such withholding tax is recorded as a liability.

### 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.



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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
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## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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.

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

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

#### Depreciation

The depreciable amount 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 (CWIP)

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.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
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## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leases

#### Policy applicable from 1 January 2019G

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
  - the Group has the right to operate the asset; or
  - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

#### Company as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

#### Right-of-use assets:

The Group recognises a right-of-use asset and lease liability at the commencement date of the lease (i.e., the date the underlying asset is available for use). The right-of-use asset is initially measured at cost. Subsequently, it is measured at cost less accumulated depreciation and impairment losses, if any, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the initial measurement of the lease liability adjusted for any lease payments made at or before the commencement date, any initial direct costs incurred and an estimate of costs to dismantle, less any lease incentive received. The estimated useful life of right-of-use assets are determined on the same basis as those of property and equipment. The recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

#### Lease liabilities:

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
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## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leases (continued)

#### Policy applicable from 1 January 2019G (continued)

##### Lease liabilities (continued)

Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

##### Short-term leases and leases of low-value assets:

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less, and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense 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.

Lease incentives or any escalation in the lease rental are recognized as an integral part of the total lease 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.

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.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
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## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leases (continued)

#### Group as a lessor (continued)

##### Policy applicable before 1 January 2019G

###### 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

Lessor accounting under IFRS 16 is substantially unchanged as under IAS 17. Accordingly, the same accounting policy has been consistently applied under IFRS 16.

### 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 properties are non current assets 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
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#### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Investment properties (continued)

Expenses incurred for replacing component of investment properties items, which are accounted for separately are capitalized, and carrying value of replaced component is written off. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of the related investment properties. All other expenses are recognized in the consolidated statement of profit or loss and other comprehensive income when incurred.

Transfers are made from investment properties to development properties only when there is a change in use evidenced by commencement of development with a view to sell. Such transfers are made at the carrying value of the properties at the date of transfer. The useful lives and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from these assets.

##### Fair value measurement

The Group discloses the fair value of the non-financial assets such as investment properties as part of its financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

##### Intangible assets

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

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

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.

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#### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Intangible assets (continued)

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
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## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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, Murabaha term deposits with banks and cash and cash equivalents.

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
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## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial Instruments (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. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and a loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter into bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as economic conditions that correlate with defaults.

IFRS 9 requires an entity to follow an expected credit loss ("ECL") 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. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive.

Expected credit loss shall be measured and provided either at an amount equal to (a) 12 month expected losses; or (b) lifetime expected losses. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for the amounts that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

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 ECL. The Group has chosen to avail the option of lifetime expected credit losses ("ECL"). Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables with no significant financing component, an entity is required to follow lifetime ECL.



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## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial Instruments (continued)

#### Financial assets (continued)

##### Impairment of financial assets (continued)

The carrying amount of the financial asset is reduced through the use of an allowance account and the amount of the loss is recognized in the 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. 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.

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

The Group considers a financial asset to be in default when the debtor is unlikely to repay the outstanding balance to the Group in full, without recourse by the Group to actions such as realizing security (if any is held).

### 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, lease liabilities, 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.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2019G

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial Instruments (continued)

#### Financial liabilities (continued)

##### Classification and subsequent measurement (continued)

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.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2019G

## 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 maintains an unfunded defined benefit plan for employees' termination / end of service benefits in accordance with the Saudi Arabian Labor Law.

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

An operating segment is a component of an entity:

- i. that is 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. whose operating results 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.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019G

**4. SIGNIFICANT ACCOUNTING POLICIES (continued)****Segment reporting (continued)**

For further details of business segments, refer note 32.

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. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS****a) Standards, interpretations and amendments adopted by the Group**

The Group has adopted, as appropriate, the following new and amended IASB Standards, effective 1 January 2019G:

**IFRS 16 Leases**

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model, similar to accounting for finance leases under IAS 17.

Lessor accounting under IFRS 16 is substantially unchanged under IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 01 January 2019G. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into a change on or after 01 January 2019G. When applying the modified retrospective approach, a lessee does not restate comparative figures. Instead, a lessee recognises the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application.

The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

**Impact of transition**

Upon transition to IFRS 16, the Group recognised right-of-use assets and lease liabilities by recognising the difference in consolidated retained earnings. The impact on transition is summarised below:

	1 January 2019G
	(SR'000)
Right-of-use assets	140,167
Lease liabilities	(140,776)
Consolidated retained earnings	(609)

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
 For the year ended 31 December 2019G

## 5. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS (continued)

### a) Standards, interpretations and amendments adopted by the Group (continued)

#### Reconciliation of lease liability

The following table represents the lease reconciliation as at 1 January 2019G.

	SR'000
Operating lease commitments as at 31 December 2018G	91,281
Additional leases on adoption of IFRS 16	61,700
Operating lease commitments as at 1 January 2019G	152,981
Incremental borrowing rate as at 1 January 2019G	4.20%
Discounted operating lease commitments as at 1 January 2019G	141,284
Commitments relating to short-term leases	(509)
Adjustment of prepayment	(8,000)
Lease liabilities recognised as at 1 January 2019G (note 14.2)	132,775

#### Impact on consolidated statement of profit or loss and other comprehensive income

During the year ended 31 December 2019G, due to the adoption of IFRS 16 – Leases, the Group's operating loss has increased by SR 7.59 million, due to increase in depreciation expense and interest charge by SR 30.21 million and SR 5.27 million, respectively, offset by a reduction in operating lease rentals by SR 27.89 million.

In the comparative period, assets held under operating leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in the consolidated statement of profit or loss on a straight-line basis over the term of the lease.

### b) Agenda decision - Over Time Transfer of Constructed Good - IAS 23 Borrowing Costs:

During 2019G, the IFRS Interpretations Committee published an agenda decision "Over Time Transfer of Constructed Good - IAS 23 Borrowing Costs" (hereinafter referred to as 'the agenda decision').

The agenda decision states that Inventories (work-in-progress) for unsold units under construction that the Group recognizes, are not qualifying assets. The agenda decision clarifies as that these assets are ready for its intended sale in its current condition, i.e., the Group intends to sell the part-constructed units as soon as it finds suitable customers and, on signing a contract with a customer and will transfer control of any work-in-progress relating to that unit to the customer, these are not qualifying assets and hence do not meet the IAS 23 criteria for capitalization of borrowing costs.

As this will be a change in the accounting policy, IASB allows entities to implement the resultant changes within sufficient time, which depends on the particular facts and circumstances, accounting policy change, and the reporting entity.

The management is in the process of assessing the accounting and system-related impacts. Considering the additional information needed, complexities involved in determining the adjustments due to the nature, size and scale of the business, the management expects to implement these changes during the year 2020G.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2019G

## 5. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS (continued)

### c) Standards, interpretations and amendments issued but not yet effective

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

Standard / Interpretation	Description	Effective from periods beginning on or after the following date
Conceptual Framework	Amendments to References to Conceptual Framework in IFRS Standards	01 January 2020G
IFRS 3	Definition of a Business (amendments to IFRS 3)	01 January 2020G
IAS 1 and IAS 8	Definition of Material (amendments to IAS 1 and IAS 8)	01 January 2020G
IFRS 17	Insurance contracts	01 January 2021G
IFRS 10 and IAS 28	Sale or contribution of assets between investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	Available for optional adoption / effective date deferred indefinitely

The Group is currently assessing the applicability and implications of adopting the above mentioned standards, amendments or interpretations on its financial statements on adoption, where applicable.

## 6. REVENUE

	31 December 2019G	31 December 2018G
	SR' 000	SR' 000
<b>Revenue by operating segments:</b>		
Residential business	522,789	561,626
Industrial development	318,652	251,047
Hospitality and leisure	75,945	42,253
Others	69,502	153,308
	986,888	1,008,234
<b>Revenue by nature:</b>		
Sale of properties	710,363	757,412
Leasing	117,542	132,714
Hospitality	70,566	54,134
Others	88,417	63,974
	986,888	1,008,234

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2019G

## 7. COST OF REVENUE

	31 December 2019G SR'000	31 December 2018G SR'000
Cost of properties	252,946	270,324
Depreciation	150,436	105,905
Employees' costs	80,400	73,474
Hospitality	16,474	21,749
Others	184,212	198,375
	684,468	669,827

## 8. SELLING AND MARKETING EXPENSES

	31 December 2019G SR'000	31 December 2018G SR'000
Employees' costs	26,838	25,432
Branding and marketing costs	17,953	28,652
Advertising and promotion	12,848	6,928
Public relations	2,030	7,149
Others	19,822	13,581
	79,491	81,742

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
 For the year ended 31 December 2019G

## 9. GENERAL AND ADMINISTRATION EXPENSES

	31 December 2019G SR'000	31 December 2018G SR'000
Employees' costs	200,040	173,606
Professional charges	33,172	34,837
Communication and office costs	23,492	20,032
Facility and city management services	14,154	12,618
Rent	3,273	6,187
Repairs and maintenance	3,931	4,677
Others	12,590	11,627
	290,652	263,584

## 10. FINANCIAL CHARGES

	2019G SR'000	2018G SR'000
Commission on loans	227,924	55,741
Financial charges on leases (note 14.2)	5,265	-
Bank charges	3,804	3,912
	236,993	59,653



**EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
For the year ended 31 December 2019G

## 11. OTHER INCOME, NET

	31 December 2019G SR'000	31 December 2018G SR'000
Reimbursement of expenses (see note (a) below)	55,243	51,040
Amortization of unearned interest (see note (b) below)	24,658	30,807
Reversal of accruals no longer required	1,055	24,342
Profit on disposal of investment properties (see note (c) below)	30,826	84,114
Claim settlement provision (see note (d) below)	(10,000)	-
Gain on disposal of property and equipment	140	-
Others	93	19,606
	102,015	209,909

- 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 55.2 million (2018G: SR 51 million), incurred during the year, has been accounted for as an other income accordingly.
- Unwinding of interest income on significant financing component amounting to SR 24.7 million (31 December 2018G: SR 30.8 million).
- During the year, the Group has entered into agreements with certain customers for the sale of investment properties resulting in a gain of SR 31 million (31 December 2018G: SR 84 million).
- A government agency filed a claim against the Company related to operations of the Oceana Villas. The Group defended the claim by submitting all the requested documents, with no resolution. To close the case, the agency proposed an amount of SR 10 million as full and final settlement which has been accepted by the Group. Accordingly, it has been reflected as provision in the books of accounts. The settlement documentation is still in process.

## 12. LOSS 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 per share calculation is given below:

	31 December 2019G SR'000	31 December 2018G SR'000
Loss attributable to ordinary equity holders of the parent	(508,808)	(135,085)
Weighted average number of ordinary shares ('000)	850,000	850,000
Loss per share (Saudi Riyals) – Basic and Diluted	(0.60)	(0.16)

**EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

For the year ended 31 December 2019G

### 13. PROPERTY AND EQUIPMENT

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

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

	Freehold land SR'000	Buildings SR'000	Leasehold improvements SR'000	Heavy equipment & machinery SR'000	Furniture and fixtures SR'000	Office equipment SR'000	Motor vehicles SR'000	Infrastructure assets SR'000	Capital work in progress (CWIP) SR'000	Total 2019G SR'000
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**Cost:**

At the beginning of the year	135,283	1,121,408	157,231	63,203	135,342	79,432	14,919	3,023,662	1,771,881	6,502,361
Additions	-	714	21,707	1,477	3,215	6,665	770	-	468,632	503,180
Transfers	-	72,610	150,525	25,425	16,541	11,315	-	146,804	(423,220)	-
Transfer from investment properties (note 15)	-	169,679	6,944	-	-	-	-	-	-	176,623
Impairment (note (e) below)	-	-	-	-	-	-	-	-	(167)	(167)
Disposals	-	-	-	-	-	-	(600)	-	-	(600)
At the end of the year	135,283	1,364,411	336,407	90,105	155,098	97,412	15,089	3,170,466	1,817,126	7,181,397

**Depreciation:**

At the beginning of the year		242,674	56,902	33,472	91,465	58,829	10,239	491,029	-	984,610
Charge for the year	-	49,997	36,285	10,663	26,414	12,678	2,721	127,999	-	266,757
Disposals	-	-	-	-	-	-	(600)	-	-	(600)
At the end of the year	-	292,671	93,187	44,135	117,879	71,507	12,360	619,028	-	1,250,767

**Net book value**

At 31 December 2019G	135,283	1,071,740	243,220	45,970	37,219	25,905	2,729	2,551,438	1,817,126	5,930,630
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EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2019G

### 13. PROPERTY AND EQUIPMENT (continued)

	Freehold land SR'000	Buildings SR'000	Leasehold improvements SR'000	Heavy equipment & machinery SR'000	Furniture and fixtures SR'000	Office equipment SR'000	Motor vehicles SR'000	Infrastructure assets SR'000	Capital work in progress (CWIP) SR'000	Total 2018G SR'000
<b>Cost:</b>										
At the beginning of the year	135,283	950,070	145,089	50,260	93,869	59,585	10,283	2,330,548	2,062,088	5,837,075
Additions	-	481	12,142	5,112	4,022	9,338	187	1,329	623,533	656,144
Transfers	-	170,857	-	7,831	37,451	10,509	4,449	691,785	(922,882)	-
Transfer from investment properties (note 15)	-	-	-	-	-	-	-	-	17,051	17,051
Impairment (note (e) below)	-	-	-	-	-	-	-	-	(7,909)	(7,909)
At the end of the year	135,283	1,121,408	157,231	63,203	135,342	79,432	14,919	3,023,662	1,771,881	6,502,361
<b>Depreciation:</b>										
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	-	39,648	18,003	7,952	30,680	17,717	3,549	121,419	-	238,968
At the end of the year	-	242,674	56,902	33,472	91,465	58,829	10,239	491,029	-	984,610
<b>Net book value</b>										
At 31 December 2018G	135,283	878,734	100,329	29,731	43,877	20,603	4,680	2,532,633	1,771,881	5,517,751

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
 For the year ended 31 December 2019G

### 13. PROPERTY AND EQUIPMENT (continued)

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

	31 December 2019G SR'000	31 December 2018G SR'000
Cost of revenue	69,958	52,454
Others	196,799	186,514
	266,757	238,968

- 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 128 million (2018G: SR 198 million).
- d. Freehold land amounting to SR 135 million (2018G: SR 135 million), mainly relates to infrastructure and operating assets.
- e. During the year, the Group has recorded an impairment loss of SR 0.17 million (2018G: SR 7.9 million) in respect of the projects, which are not actively pursued any further.
- f. Property and equipment with the gross carrying amount of SR 359 million (2018G: SR 185.5 million) are fully depreciated but are still in use.
- g. As at 31 December 2019G, an amount of SR 96.8 million (2018G: SR 108.8 million) was capitalized as borrowing cost for the construction of property and equipment.
- h. The Group has transferred certain costs from / to property and equipment and investment properties based on the change in the intended use of such developments.

### 14. LEASES

#### 14.1 Right-of-use assets

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

Buildings	3-10 years
Heavy equipment & machinery	3-4 years
Motor vehicles	2-4 years

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2019G

## 14. LEASES (continued)

### 14.1 Right-of-use assets (continued)

	Buildings	Heavy equipment & machinery	Motor Vehicles	Total
	SR'ooo	SR'ooo	SR'ooo	SR'ooo
<b>Cost:</b>				
Balance as at 1 January 2019G	103,710	52,561	6,424	162,695
Additions	1,873	1,506	-	3,379
Balance as at 31 December 2019G	105,583	54,067	6,424	166,074
<b>Accumulated depreciation:</b>				
As at 1 January 2019G	4,100	17,228	1,200	22,528
Charge for the year	11,402	16,634	2,178	30,214
As at 31 December 2019G	15,502	33,862	3,378	52,742
<b>Net book value:</b>				
As at 31 December 2019G	90,081	20,205	3,046	113,332

Depreciation charge for the year has been allocated as follows:

	31 December 2019G SR'ooo
Cost of revenue	27,492
Others	2,722
	30,214

### 14.2 Lease Liabilities

At 31 December 2019G, the lease liabilities are presented in the consolidated statement of financial position as follows:

	2019G SR'ooo
Non-current portion	80,625
Current portion	33,013
	113,638

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2019G

## 14. LEASES (continued)

### 14.2 Lease Liabilities (continued)

#### Movement of lease liabilities:

	2019G SR'000
As at 1 January 2019G (note 5)	132,775
Additions	3,379
Financial charges (note 10)	5,265
Repayments	(27,781)
As at 31 December 2019G	113,638

The aging of minimum lease payments together with the present value of minimum lease payments, as of 31 December, are as follows:

	2019G	
	Minimum lease payments	Present value of minimum lease payments
	(SR'000)	(SR'000)
Within twelve months	37,501	33,013
One to five years	54,502	44,584
More than five years	39,964	36,041
Total minimum lease payments	131,967	113,638
Less: financial charges	(18,329)	-
Present value of minimum lease payments	113,638	113,638

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2019G

## 15. INVESTMENT PROPERTIES

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

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

	Land	Buildings	Leasehold improvements	Infrastructure assets	Capital work in progress (CWIP)	Total 2019G
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000

### Cost:

At the beginning of the year	2,825,207	945,217	945	435,530	1,145,828	5,352,727
Additions	-	4,636	-	520	101,401	106,557
Disposals	(804)	(13,101)	-	(4,042)	(33)	(17,980)
Transfers to property and equipment (note 13)	-	(169,679)	(6,944)	-	-	(176,623)
Transfers to development properties (note 18)	(3,544)	-	-	-	-	(3,544)
Transfers	-	169,679	6,944	-	(176,623)	-
Reversal of impairment on disposal	-	4,293	-	-	-	4,293
At the end of the year	2,820,859	941,045	945	432,008	1,070,573	5,265,430

### Depreciation:

At the beginning of the year	-	136,817	945	82,817	-	220,579
Charge for the year	-	32,345	-	20,629	-	52,974
Disposals	-	(1,534)	-	(766)	-	(2,300)
At the end of the year	-	167,628	945	102,680	-	271,253

### Net book value

At 31 December 2019G	2,820,859	773,417	-	329,328	1,070,573	4,994,177
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EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
 For the year ended 31 December 2019G

**15. INVESTMENT PROPERTIES (continued)**

	Land	Buildings	Leasehold improvements	Infrastructure assets	Capital work in progress (CWIP)	Total 2018G
	SR'ooo	SR'ooo	SR'ooo	SR'ooo	SR'ooo	SR'ooo
<b>Cost:</b>						
At the beginning of the year	2,857,645	952,885	945	435,530	1,006,198	5,253,203
Additions	-	-	-	2,753	156,681	159,434
Transfers	(2,861)	(7,668)	-	(2,753)	-	(13,282)
Transfers to development properties (note 18)	(29,577)	-	-	-	-	(29,577)
Transfers to property and equipment (note 13)	-	-	-	-	(17,051)	(17,051)
<b>At the end of the year</b>						
	2,825,207	945,217	945	435,530	1,145,828	5,352,727
<b>Depreciation:</b>						
<b>At the beginning of the year</b>						
Charge for the year	-	101,249	945	65,570	-	167,764
Disposals	-	36,776	-	17,247	-	54,023
At the end of the year	-	(1,208)	-	-	-	(1,208)
Net book value	-	136,817	945	82,817	-	220,579
At 31 December 2018G	2,825,207	808,400	-	352,713	1,145,828	5,132,148



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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019G

**15. 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 23). 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 2,407 million (2018G: SR 2,412 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 25(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 25(b)). Greenfield land, measuring 15.95 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 2019G, 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 Taqueem (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 neighborhood. 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	Level 2	Level 3	Total
	SR'ooo	SR'ooo	SR'ooo	SR'ooo
<b>31 December 2019G</b>	-	-	<b>47,412,867</b>	<b>47,412,867</b>
31 December 2018G	-	-	47,738,807	47,738,807

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.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2019G

## 15. INVESTMENT PROPERTIES (continued)

- c. The Group has transferred certain costs from / to property and equipment and investment properties based on the change in the intended use of such developments.
- d. Following is the breakup of investment properties, held for various purposes:

	31 December 2019G	31 December 2018G
	SR'ooo	SR'ooo
Rental income	2,173,319	2,306,940
Currently undetermined future use	2,820,858	2,825,208
	4,994,177	5,132,148

- e. As at 31 December 2019G, an amount of SR 23.94 million (2018G: 37.83 million) was capitalized as cost of borrowing for the construction of investment properties.

## 16. INTANGIBLE ASSETS

The movement in the intangible assets is as follows:

	31 December 2019G SR'ooo	31 December 2018G SR'ooo
<b>Cost:</b>		
At the beginning of the year	99,107	83,246
Additions	4,379	15,861
At the end of the year	103,486	99,107
<b>Amortization:</b>		
At the beginning of the year	(80,491)	(68,048)
Charge for the year	(10,479)	(12,443)
At the end of the year	(90,970)	(80,491)
Net book value	12,516	18,616

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2019G

## 17. INVESTMENT IN EQUITY ACCOUNTED INVESTEEES

	Effective ownership interest (%)		Balance as at	
	31 December 2019G	31 December 2018G	31 December 2019G	31 December 2018G
			SR'000	SR'000
Investment in Ports Development Company ("PDC") (see note (a) below)	50%	50%	2,366,137	2,376,775
Investment in Biyoutat Progressive Company for Real Estate Investment & Development ("Biyoutat") (see note (b) below)	20%	20%	45,790	45,790
			2,411,927	2,422,565

### a) PORTS DEVELOPMENT COMPANY

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

	2019G	2018G
	SR'000	SR'000
Balance at the beginning of the year	2,376,775	2,342,901
Share of results for the year, net of Zakat charge	7,983	26,130
Share of other comprehensive (loss) / income	(18,621)	7,744
Balance at the end of the year	2,366,137	2,376,775

Quantitative information of PDC is as follows:

	31 December 2019G	31 December 2018G
	SR'000	SR'000
Non-current assets	8,004,904	7,900,555
Current assets	343,798	457,100
Non-current liabilities	(2,520,969)	(2,439,445)
Current liabilities	(516,294)	(585,494)
Equity	5,311,440	5,332,716
Group's share in equity – 50% (2018G: 50 %)	2,655,720	2,666,358
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)	(1,869)
Group's carrying amount of the investment	2,366,137	2,376,775

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
 For the year ended 31 December 2019G

## 17. INVESTMENT IN EQUITY ACCOUNTED INVESTEEES (continued)

### a) PORT DEVELOPMENT COMPANY (continued)

	31 December 2019G	31 December 2018G
	SR'ooo	SR'ooo
Revenue	327,763	317,844
NET INCOME FOR THE YEAR	15,966	55,110
Other comprehensive (loss) / income to be reclassified to profit or loss in subsequent years	(37,242)	15,489
Total comprehensive (loss) / income for the year	(16,882)	70,600
Group's share of profit for the year, net of related Zakat charge	7,983	26,130
Group's share of other comprehensive (loss) / income for the year	(18,621)	7,744

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 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, limited to SR 112.5 million plus any Murabaha profits due to be paid by the PDC, to allow PDC to secure Shariah compliant commodity Murabaha facilities, having a maximum limit of SR 180 million. During the year ended 31 December 2017G, PDC availed the subject Murabaha facility, amounting to SR 150 million, to finance its working capital requirements. The subject facility has been enhanced to SR 180 million during 2018G. In this connection, the Company had also provided promissory notes, amounting to SR 75 million, which has been enhanced to SR 90 million during current year, plus any Murabaha profits due to be paid by the PDC.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019G

**17. INVESTMENT IN EQUITY ACCOUNTED INVESTEES (continued)****a) PORT DEVELOPMENT COMPANY (continued)**

During the year ended 31 December 2017G, PDC had 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 2019G, the subject Swap Contracts had a negative fair value of SR 78.8 million (2018G: SR 40.62 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 19.08 million (2018G: SR 7.7 million), within other comprehensive (loss) / income 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 (Associate), 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 yet 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 2019G SR'000	31 December 2018G 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

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2019G

## 18. DEVELOPMENT PROPERTIES

	31 December 2019G SR'ooo	31 December 2018G SR'ooo
Costs incurred to-date	2,095,237	2,256,283
Transferred from investments properties (note 15)	3,544	29,577
	2,098,781	2,285,860
Transfers to cost of revenue (note 7)	(252,946)	(270,324)
Provision for development properties	(1,329)	(1,329)
	1,844,506	2,014,207
Current portion of development properties	(790,126)	(411,098)
Non-current portion of development properties	1,054,380	1,603,109

Development properties include land amounting to SR 163.6 million (2018G: SR 176.8 million).

As at 31 December 2019G, an amount of SR 29.38 million (2018G: SR 128 million) was capitalized as cost of borrowing for the construction of development properties.

The Group has transferred certain costs from investment properties to development properties based on the change in the intended use of such developments.

## 19. ACCOUNTS RECEIVABLES AND OTHER CURRENT ASSETS

	31 December 2019G SR'ooo	31 December 2018G SR'ooo
Gross accounts receivable	656,742	647,204
Less: Impairment loss on accounts receivable (see notes below)	(150,418)	(86,411)
	506,324	560,793
Contribution receivable	37,664	18,427
Prepayments	33,253	41,772
Advances to suppliers	17,501	32,232
VAT receivable	-	31,394
Amounts due from related parties (note 30)	7,327	15,053
Commission receivable on Murabaha term deposits	1,641	508
Others	52,951	61,359
	656,661	761,538

**EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

For the year ended 31 December 2019G

**19. ACCOUNTS RECEIVABLES AND OTHER CURRENT ASSETS (continued)**

- a. As at 31 December 2019G, accounts receivable at nominal value of SR 150.4 million (2018G: SR 86.4 million) were impaired. The unimpaired accounts receivables include SR 417 million (2018G: SR 443 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. In addition to other collaterals in the form of promissory notes or bank guarantees, the minimum collateral against sale of property transaction is the market value of the property sold to the customer as the Group transfers property title to the customer only upon satisfactory receipt of the entire amount of the contract.
- b. Movements in the impairment loss on accounts receivable is as follows:

	2019G SR'000	2018G SR'000
At the beginning of the year	86,411	49,696
Provision for the year	64,007	37,200
Doubtful debts written-off	-	(485)
At the end of the year	150,418	86,411

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

	Total	Neither	Past due but not impaired				
		Past due nor impaired	< 30 days	30-60 days	61-90 days	91-180 days	> 180 days
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
31 December 2019G	656,742	34,759	28,308	12,109	14,448	51,009	516,109
31 December 2018G	647,204	47,169	18,038	35,695	17,034	50,854	478,414

- c. Future commitment of receivables against signed sales contracts as of 31 December 2019G, amounted to SR 1,530 million (2018G: SR 1,269.8 million).
- d. Movements in the unbilled revenue is as follows:

	2019G SR'000	2018G SR'000
At the beginning of the year	711,467	632,778
Revenue for the year	889,017	922,977
Billing raised during the year	(523,431)	(844,288)
	1,077,053	711,467
Current portion of unbilled revenue	(362,141)	(502,344)
Non-current portion of unbilled revenue	714,912	209,123

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
 For the year ended 31 December 2019G

## 20. MURABAHA TERM DEPOSITS WITH BANKS

	31 December 2019G SR'000	31 December 2018G SR'000
Murabaha deposits (note 21)	279,806	598,655
Short-term Murabaha deposits (note 21)	(279,806)	(548,655)
	-	50,000

## 21. CASH AND CASH EQUIVALENTS

	31 December 2019G SR'000	31 December 2018G SR'000
Cash and bank balances	124,587	53,977
Short-term Murabaha deposits (see note below and note 20)	279,806	548,655
	404,393	602,632

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 2019G amounted to SR 30.3 million (2018G: SR 11.7 million). These deposits/balances are not under lien.



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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019G

**22. EMPLOYEES' RECEIVABLE – HOME OWNERSHIP SCHEME**

In accordance with the Group's policy, until 31 December 2016, the Group used to sell built units to eligible employees under interest free finance lease arrangement for a period of twenty years. The gross value of the lease payments is recognized as a receivable under employee home ownership scheme. The difference between the gross receivable and the present value of the receivable is recognized as an unearned interest income.

	31 December	31 December	31 December	31 December	31 December	31 December
	2019G	2018G	2019G	2018G	2019G	2018G
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
	Gross receivable		Present value of gross receivable		Unearned interest income	
Current portion	7,213	6,278	3,906	3,462	3,307	2,816
<b>Non-current portion:</b>						
One to five years	28,853	25,111	17,050	15,033	11,803	10,078
Over five years	86,529	79,386	67,595	62,593	18,934	16,793
	115,382	104,497	84,645	77,626	30,737	26,871
	122,595	110,775	88,551	81,088	34,044	29,687

**23. SHARE CAPITAL**

The Parent Company's share capital is divided into 850 million shares of SR 10 each (2018G: 850 million shares of SR 10 each), allocated as follows:

	2019G		2018G	
	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 15(a))	170,000	1,700,000	170,000	1,700,000
	850,000	8,500,000	850,000	8,500,000

**24. STATUTORY RESERVE**

In accordance with the By-laws, approved by the shareholders during April 2017G, 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.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019G

**25. LONG-TERM LOANS**

	31 December 2019G SR'000	31 December 2018G SR'000
Ministry of Finance ("MoF") loan (see note (a) below)	5,000,000	5,000,000
Others (see note (b) below)	3,113,750	2,908,750
	8,113,750	7,908,750
Current portion of long-term loans (see note (a) and (b) below)	(1,557,500)	(857,500)
Non-current portion of long-term loans	6,556,250	7,051,250

- 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 01 June 2015. However, based on the Group's request submitted before the due date, the MoF, during September 2015, had rescheduled the loan by extending the grace period for an additional period of five years. Subsequent to the year-end, based on the discussions carried out with the Ministry of Finance, the MoF has rescheduled the first instalment due on June 2020G to January 2021G. Hence, the principal amount is now repayable in seven annual installments, commencing from January 2021G, 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 2019G, amounted to SR 976.25 million (31 December 2018G: SR 1,508.75 million). As per the terms of the agreement, the loan is repayable in eight bi-annual installments from 30 June 2018G to 31 December 2021G. The installments due within twelve-months, amounting to SR 532.5 million are 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 2019G, amounted to SR 437.5 million (31 December 2018G: SR 500 million). As per the terms of the agreement, the loan is repayable in eight bi-annual installments from 20 October 2019G to 20 April 2023G. The installments due within twelve-months, amounting to SR 125 million, are 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 92% 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 subject loan facilities, as at December 31, 2019G, amounted to SR 1,700 million (December 31, 2018G: SR 900 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 installments due within twelve-months, amounting to SR 200 million, are classified as a current liability. However, discussions regarding restructuring of the loans and the repayment plans are already in progress with the respective banks. The loan facilities are secured against part of KAEC's greenfield land for a total required value of SR 3,000 million. Moreover, the subject loan facilities are further secured by order notes of SR 2,250 million.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019G

## 26. SHORT-TERM LOANS

During 2018G, the Company has availed a short-term facility 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 was reduced to SR 200 million during current year and is secured by a promissory note of SR 200 million. The outstanding balance of the facility, as at 31 December 2019G, amounted to SR 170 million (31 December 2018G: SR 150 million).

Moreover, from an existing short-term facility of SR 400 million, the Company has availed SR 150 million during current year in order to finance the working capital requirements. The subject loan facility carries commission at prevailing commercial rates and is secured by the order note of SR 2,500 million (refer note 25(b)). The outstanding balance of the facility, as at 31 December 2019G, amounted to SR 150 million.

In addition to the above, the Company has a Documentary credit ("DC") facility of SR 250 million from a commercial bank. The outstanding balance, as of 31 December 2019G, amounted to SR 42.7 million.

Furthermore, there is a supplementary DC facility from another commercial bank, amounting to SR 30 million. The outstanding balance of the facility, as of 31 December 2019G, amounted to SR 3.7 million.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2019G

## 27. 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:

	2019G SR'000	2018G SR'000
Balance at the beginning of the year	64,220	52,758
<b>Included in consolidated statement of profit or loss</b>		
Current service cost	14,421	13,257
Interest cost	2,813	1,856
	17,234	15,113
<b>Included in consolidated statement of other comprehensive income</b>		
<b>Remeasurement gain arising from:</b>		
Financial assumptions	(448)	586
Experience adjustments	(4,362)	(769)
Actuarial gain	(4,810)	(183)
Benefits paid	(12,776)	(3,468)
Balance at the end of the year	63,868	64,220

### Actuarial assumptions

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

	2019G	2018G
Discount rate	2.97%	4.38%
Expected rate of future salary increase	3.5%	5%
Mortality rate	1.17%	1.17%
Employee turnover rate	Age & service based - Moderate	Age & service based - Moderate
Retirement age	60 years	60 years

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
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For the year ended 31 December 2019G

## 27. EMPLOYEES' TERMINAL BENEFITS (continued)

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

	Change in assumption by	Impact on ETB liability Increase / (decrease)			
		31 December 2019G		31 December 2018G	
		Increase in rate	Decrease in rate	Increase in rate	Decrease in rate
		SR'000	SR'000	SR'000	SR'000
Discount rate	1%	(5,096)	5,881	(4,753)	5,481
Expected rate of future salary increase	1%	5,789	(5,118)	5,391	(4,769)
Mortality rate	10%	(17)	17	(17)	17
Employee turnover rate	10%	(579)	620	(586)	628

## 28. ACCOUNTS PAYABLE AND ACCRUALS

	31 December 2019G SR'000	31 December 2018G SR'000
Trade accounts payable	401,907	312,714
Accrued financial charges	218,024	155,170
Retentions payable	223,121	200,484
Contract cost accruals	132,223	117,620
Advances from customers	94,069	92,490
Amounts to be donated for charitable purposes (see note below)	44,321	49,847
Amounts due to related parties (note 30)	15,106	23,053
VAT payable	3,737	-
Accrued expenses and other payables	154,083	103,625
Unearned interest income - Home Ownership Scheme (note 22)	3,307	2,816
Unearned income	15,210	30,244
	1,305,108	1,088,063

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.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
 For the year ended 31 December 2019G

## 29. ZAKAT

### Charge for the year

	31 December 2019G SR'000	31 December 2018G SR'000
Current year provision	45,000	66,000

The provision for the year is based on the consolidated Zakat base of the Group.

### Movement in provision

The movement in the Zakat provision is as follows:

	2019G SR'000	2018G SR'000
At the beginning of the year	156,843	153,086
Charge for the year	45,000	66,000
Payments during the year	(80,027)	(62,243)
At the end of the year	121,816	156,843

### Status of assessments

#### The Parent Company – Emaar The Economic City

The General Authority of Zakat and Tax ("GAZT") issued Zakat assessment 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 Board 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 (WHT) difference.

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.

During 2019G, the GAZT has issued a letter for collection of additional Zakat liability of SR 86.6 million. The Company has settled 20% of the total liability in the year 2019G and 43% of the total liability subsequent to year end. Furthermore, the GAZT has agreed to allow four monthly installments to pay the balance Zakat liability.

The WHT case was also under the review at the BOG. A decision was issued supporting the Company's objection related to delay fine. The GAZT has filed an appeal with the Royal court against the BOG's decision in respect of delay fine, which is pending adjudication.

The Company has settled the additional Zakat liabilities and finalized assessments for the years 2009 to 2011. The Company has filed the Zakat returns for the years up to 2018G and obtained the Zakat certificates.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
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## 29. ZAKAT (continued)

### Subsidiaries – ECIHC, IZDCL, REOM, REM, RED and EKC

ECIHC finalized its assessment up to the year 2012 and filed the Zakat returns up to the year 2018G and obtained Zakat certificates. The GAZT has requested for additional information for the years 2014 to 2018G which has been duly responded.

IZDCL finalized its Zakat status up to the year 2012. The GAZT issued Zakat assessment for the years 2013 to 2015 and claimed additional Zakat of SR 4.6 million. IZDCL has objected against the GAZT assessment, providing the supporting documents for its position. GAZT has transferred the case to the General Secretariat of Tax Committees (GSTC) and IZDCL has also registered an appeal on GSTC's portal. The GAZT has provided their comments on the appeal filed which have been duly responded to and feedback is awaited.

IZDCL has filed the Zakat returns up to the years 2018G and obtained Zakat certificates.

REOM, RED and REM have filed their Zakat returns for the period / years from 2013 to 2018G and obtained Zakat certificates.

EKC has filed the Zakat return for the period / years from 2016 to 2018G and obtained un-restricted Zakat certificate.

## 30. RELATED PARTY TRANSACTIONS

The Company, in the normal course of business, enters into transactions with other entities that fall within the definition of a related party contained in International Accounting Standard 24. 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 that were no more favourable than those available or which reasonably be expected to be available in similar transactions with non related parties i.e., equivalent to those that prevail in arm's length transactions. In addition to note 17, following are the significant related party transactions during the period and the related balances:

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2019G

### 30. RELATED PARTY TRANSACTIONS (continued)

Related party	Nature of transactions	Amounts of Transactions		Balance as at	
		2019G	2018G	31 December 2019G	31 December 2018G
		SR' 000	SR' 000	SR' 000	SR' 000

#### Amounts due from related parties

Other related parties	Lease rentals, utilities and service charges	4,616	7,349	3,211	7,941
	Sale of properties	5,640	27,762	1,650	-
Joint Venture	Lease rentals and utilities charges	1,497	1,208	971	2,241
Key management personnel	Sale of properties, utilities and service charges	1,179	186	895	203
	Lease rentals	222	-	222	-
Board of directors	Sale of properties, utilities and service charges	164	580	231	4,668
	Lease rentals	147	-	147	-
<b>Total</b>				7,327	15,053

#### Amounts due to related parties

Other related parties	Expenses incurred on behalf of the Group	-	-	(2,619)	(2,619)
	Services provided to the Group	389	4,187	(415)	(305)
	Advance against sale of properties and leased units	-	-	(7,961)	(7,965)
	Purchase of goods	20	276	-	-
Other related parties with significant influence	Expenses incurred on behalf of the Group	-	-	(89)	(89)
Key management personnel	Remuneration	16,263	23,197	-	(7,875)
Board of directors	Remuneration and meeting fees	4,003	4,200	(4,003)	(4,200)
	Advance received against services	-	-	(19)	-
<b>Total</b>				(15,106)	(23,053)



EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2019G

### 30. RELATED PARTY TRANSACTIONS (continued)

#### Compensation of key management personnel of the Group

	31 December 2019G	31 December 2018G
	SR' 000	SR' 000
Short-term employee benefits	13,159	15,981
Non-monetary benefits	346	401
Post-employment benefits	1,347	2,434
Termination benefits	1,411	2,375
Other long-term benefits	-	2,006
	16,263	23,197
Amount due to key management personnel	7,901	8,375

### 31. CONTINGENT LIABILITIES AND COMMITMENTS

In addition to disclosure set out in note 17, 25 and 29, contingent liabilities and commitments, as at 31 December 2019G, are described as below:

- The Group has outstanding commitments related to future expenditure for the development of KAEC in coming few years, amounting to SR 781 million (31 December 2018G: SR 1,271 million).
- The Group, from time to time, is a defendant in lawsuits, which mainly represent commercial disputes. The management and the legal counsel expects a favourable outcome of all the pending litigation against the Group. Accordingly, no provision has been made in these consolidated financial statements.
- Operating lease commitments:

#### 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 2019G	31 December 2018G
	SR' 000	SR' 000
Within one year	49,112	53,740
After one year but not more than five years	191,348	201,941
More than five years	574,169	617,315
	814,629	872,996

### 32. 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.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019G

**32. SEGMENTAL INFORMATION (continued)****Operating 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.

The Executive Leadership Team is the Chief Operating Decision Maker (CODM) and monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

**Segments related Revenue and Profitability**

For the year ended:	Residential business	Industrial development	Hospitality and leisure	Others	Adjustments and eliminations	Total
	SR'ooo	SR'ooo	SR'ooo	SR'ooo		SR'ooo
<b>31 December 2019G</b>						
<b>Revenue</b>						
External customers	522,789	318,652	75,945	69,502	-	986,888
Inter-segment	14,867	4,651	31,633	97,769	(148,920)	-
	537,656	323,303	107,578	167,271	(148,920)	986,888
<b>Results</b>						
Cost of inventories and services recognised as an expense	(310,716)	(63,106)	(34,366)	(161,248)	(110,624)	(458,813)
Impairment loss	(493)	-	(3,564)	(55,824)	-	(59,881)
Financial charges	(300)	-	(4,424)	(232,269)	-	(236,993)
Murabaha deposit income	56	113	6	616	-	791
Depreciation	(41,274)	(23,846)	(84,874)	(199,962)	-	(349,956)
Amortisation	(235)	-	(20)	(10,224)	-	(10,479)
Share of results of equity accounted investee	-	-	-	7,983	-	7,983
Other income / (expenses)	19,872	32,810	(11,545)	60,878	-	102,015
Unallocated other income / (expenses)	-	-	-	-	-	(445,363)
Loss before Zakat						(463,808)

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2019G

### 32. SEGMENTAL INFORMATION (continued)

#### Operating Segments (continued)

For the year ended:	Residential business	Industrial development	Hospitality and leisure	Others	Adjustments and eliminations	Total
	SR'ooo	SR'ooo	SR'ooo	SR'ooo		SR'ooo
<b>31 December 2018G</b>						
<b>Revenue</b>						
External customers	561,626	251,047	42,253	153,308	-	1,008,234
Inter-segment	13,004	4,068	34,180	85,136	(136,388)	-
	574,630	255,115	76,433	238,444	(136,388)	1,008,234
<b>Results</b>						
Cost of inventories and services recognised as an expense	(348,097)	(49,826)	(3,942)	(178,499)	85,751	(494,613)
Impairment loss	(880)	-	(1,593)	(47,362)	-	(49,835)
Financial charges	(48)	(3)	(624)	(58,978)	-	(59,653)
Murabaha deposit income	2,572	2,702	1,777	686	-	7,737
Depreciation	(35,473)	(21,902)	(49,533)	(185,511)	-	(292,419)
Amortisation	(41)	-	-	(12,402)	-	(12,443)
Share of results of equity accounted investee	-	-	-	26,130	-	26,130
Other income / (expenses)	41,228	90,353	1,295	77,033	-	209,909
Unallocated other income / (expenses)	-	-	-	-	-	(414,635)
Loss before Zakat						(71,588)

### 33. 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:

- Credit risk;
- Commission rate risk;
- Currency risk; and
- 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.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019G

### 33. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

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.

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, lease liabilities, 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.

Customer credit risk is assessed by the Group according to the Group's established policy, procedures and controls relating to customer credit risk management. Credit quality of a customer is assessed based on a credit rating process.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for various customer segments with similar loss patterns. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors (such as GDP forecast and industry outlook) affecting the ability of the customers to settle the receivables. The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

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 11.5 % (2018: 12.3%) of outstanding accounts receivable as at 31 December 2019G. 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. Payment term varies from product to product with some exceptions at the customer level.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
For the year ended 31 December 2019G

### 33. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

#### a) Credit risk (continued)

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.

The Group's gross maximum exposure to credit risk at the reporting date is as follows:

	31 December 2019G	31 December 2018G
	SR'ooo	SR'ooo
Accounts receivables	756,325	742,551
Murabaha term deposits with banks	-	50,000
Cash and cash equivalents	404,393	602,632
	1,160,718	1,395,183

#### 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. In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

#### 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:

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 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
 For the year ended 31 December 2019G

### 33. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

#### b) Commission rate risk (continued)

##### Commission rate sensitivity (continued)

	Increase/decrease	Effect on profit
	in basis points	before Zakat
		SR'000
2019G	+100	(64,085)
	-100	64,085
2018G	+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.

The weighted average rate for the Group's term loans is 4.2% (approx).

#### 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 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 Group has additional approved facilities (refer note 25) and is currently in the process to withdraw appropriate required amounts in the first half of 2020G. Furthermore, discussions regarding the restructuring of the loans and repayment plans are already in progress with the respective banks.

Moreover, subsequent to year-end, the Ministry of Finance (MOF) has rescheduled the first instalment due on June 2020G to January 2021G. Hence, the principal amount is now repayable in seven annual instalments, commencing from January 2021G, with accrued commission payable on an annual basis.

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019G

**33. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)****d) Liquidity risk (continued)**

31 December 2019G	Less than 3 months	3 to 12 months	More than 12 months	Total
	SR'ooo	SR'ooo	SR'ooo	SR'ooo
Loans	-	1,223,898	7,256,250	8,480,148
Lease liabilities	-	37,501	94,466	131,967
Accounts payable and accruals	-	1,207,732	-	1,207,732
	-	2,469,131	7,350,716	9,819,847

31 December 2018G	Less than 3 months	3 to 12 months	More than 12 months	Total
	SR'ooo	SR'ooo	SR'ooo	SR'ooo
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

**34. 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 2019G, the Group's gearing ratio is 54% (2018G: 50%).

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 2019G and 31 December 2018G.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019G

**35. 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 in level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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 2019G and 31 December 2018G, the fair values of the Group's financial instruments are estimated to approximate their carrying values and are classified under level 3 of the fair value hierarchy. No significant inputs were applied in the valuation of accounts receivables as at 31 December 2019G and 31 December 2018G.

During the year ended 31 December 2019G, there were no movements between the levels.

**36. 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.

**37. MATERIAL SUBSIDIARIES**

The following table summarizes the statement of financial position of these subsidiaries as at 31 December 2019G. This information is based on the amounts before inter-company elimination.

	ECIHC	IZDCL	REOM	REM	RED
	SR'ooo	SR'ooo	SR'ooo	SR'ooo	SR'ooo
Total assets	5,343,551	1,333,159	1,593,207	522,419	2,035,550
Total liabilities	22,715	100,269	328,604	94,076	660,933
Total equity	5,320,836	1,232,890	1,264,603	428,343	1,374,617



EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
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### 37. MATERIAL SUBSIDIARIES (continued)

The following table summarizes the statement of financial position of these subsidiaries as at 31 December 2018G. This information is based on the amounts before inter-company elimination.

	ECIHC	IZDCL	REOM	REM	RED
	SR'000	SR'000	SR'000	SR'000	SR'000
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	1,452,206

The following table summarizes the statement of profit and loss of these subsidiaries for the year ended 31 December 2019G. This information is based on the amounts before inter-company elimination.

	ECIHC	IZDCL	REOM	REM	RED
	SR'000	SR'000	SR'000	SR'000	SR'000
Revenue	6,625	209,900	94,053	36,863	22,869
(Loss) / profit for the year	(2,050)	139,166	(108,311)	(41,154)	(81,213)
<b>Total comprehensive (loss) / income for the year</b>					
	(2,086)	138,793	(108,028)	(40,784)	(77,837)

The following table summarizes the statement of profit and loss of these subsidiaries as at 31 December 2018G. This information is based on the amounts before inter-company elimination.

	ECIHC	IZDCL	REOM	REM	RED
	SR'000	SR'000	SR'000	SR'000	SR'000
Revenue	5,750	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)
<b>Attributable to:</b>					
Owner of the parent	(122,693)	59,929	(49,414)	(46,520)	(81,104)
Non-controlling interest	(34)	379	(501)	(738)	(1,609)

### 38. SUBSEQUENT EVENTS

The spread of novel coronavirus (COVID-19) across multiple geographies was confirmed in early 2020G, causing significant macro-economic uncertainty, disruptions to businesses and economic activities. The Group considers this outbreak to be a non-adjusting post balance sheet event. At this early stage, the Group is in the process of assessing any potential impact. The management and those charged with governance will continue to monitor the situation and accordingly update all stakeholders as soon as more information is available. Changes in circumstances may require enhanced disclosures or recognition of adjustments in the condensed interim consolidated financial statements of the Group for the subsequent periods in the financial year 2020G.

### 39. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorized to issue by the Board of Directors on 23 Rajab 1441H, Corresponding to 18 March 2020G.

**EMAAR THE ECONOMIC CITY**  
**(A Saudi Joint Stock Company)**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 31 December 2018G**



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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Emaar The Economic City (A Saudi Joint Stock Company)

### 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.



## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Emaar The Economic City (A Saudi Joint Stock Company) (continued)

The key audit matter	How our audit addressed the key audit matter
<p><b>Revenue recognition</b></p> <p>Revenue is an important component of the Group's performance and profitability.</p> <p>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:</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• The total expected cost of completion of the projects</li> <li>• The likelihood of collection of remaining sales consideration</li> </ul> <p>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.</p>	<p>In responding to this area of focus, our procedures included the following:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> <li>• Assessed the likelihood of collection of sales consideration, as evidenced by bank guarantees and promissory notes.</li> <li>• 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 unsold units based on the relative area of the respective project.</li> <li>• Recalculated the revenue, on a sample basis, using the input method and compared it with the calculation performed by the management.</li> <li>• Assessed the appropriateness of the Group's revenue recognition accounting policies and the related disclosures in the consolidated financial statements.</li> </ul>



## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Emaar The Economic City (A Saudi Joint Stock Company) (continued)

The key audit matter	How our audit addressed the key audit matter
<p><b>Impairment review of investment properties and property and equipment</b></p> <p>The Group assesses indicators of impairment on its investment properties and property and equipment on an ongoing basis.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>Refer to note 4 to the consolidated financial statements for the accounting policy for impairment of non-current assets, note 11 &amp; 12 for disclosures related to property and equipment and investment properties, respectively.</p>	<p>In order to evaluate the management assessment of impairment, we performed the following:</p> <ul style="list-style-type: none"> <li>Discussed with the management the process of identifying impairment indicators and results of the assessment.</li> <li>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.</li> <li>Assessed the qualifications and expertise of the third party valuers, involved in the valuation of investment properties.</li> <li>Assessed the appropriateness of the Group's accounting policies for impairment and the related disclosures in the consolidated financial statements.</li> </ul>



## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Emaar The Economic City (A Saudi Joint Stock Company) (continued)

### 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.

### 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.



## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Emaar The Economic City (A Saudi Joint Stock Company) (continued)

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

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.



## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Emaar The Economic City (A Saudi Joint Stock Company) (continued)

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



**EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)**
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**
**AND OTHER COMPREHENSIVE INCOME**
**For the year ended 31 December 2018G**

	Notes	2018G	2017G
		SR'ooo	SR'ooo
Revenue	6	1,008,234	1,437,976
Cost of revenue	6	(669,827)	(621,933)
<b>GROSS PROFIT</b>		<b>338,407</b>	<b>816,043</b>
<b>EXPENSES</b>			
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)
<b>(LOSS) / PROFIT FROM MAIN OPERATIONS</b>		<b>(255,711)</b>	<b>293,478</b>
<b>OTHER INCOME / (EXPENSES)</b>			
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
<b>(LOSS) / PROFIT FOR THE YEAR BEFORE ZAKAT</b>		<b>(71,588)</b>	<b>388,862</b>
Zakat	26	(66,000)	(138,038)
<b>NET (LOSS) / PROFIT FOR THE YEAR</b>		<b>(137,588)</b>	<b>250,824</b>
<b>OTHER COMPREHENSIVE INCOME / (LOSS)</b>			
<b>Items that will be reclassified to consolidated statement of profit or loss in subsequent periods:</b>			
Share of other comprehensive income / (loss) from equity accounted investee	14 (a)	7,744	(28,057)
<b>Items that will not be reclassified to consolidated statement of profit or loss in subsequent periods:</b>			
Re-measurement gain / (loss) on defined benefit plans	24	183	(46)
<b>TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR</b>		<b>(129,661)</b>	<b>222,721</b>
<b>NET (LOSS) / PROFIT FOR THE YEAR ATTRIBUTABLE TO:</b>			
Equity holders of the Parent Company		(135,085)	240,921
Non-controlling interests		(2,503)	9,903
		(137,588)	250,824
<b>TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR ATTRIBUTABLE TO:</b>			
Equity holders of the Parent Company		(127,158)	212,922
Non-controlling interests		(2,503)	9,799
		(129,661)	222,721
<b>(LOSS) / EARNINGS PER SHARE</b>			
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.

**EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)**
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As at 31 December 2018G

	Notes	2018G SR'000	2017G SR'000
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
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
<b>TOTAL NON-CURRENT ASSETS</b>		<b>14,798,686</b>	<b>14,185,925</b>
<b>CURRENT ASSETS</b>			
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
<b>TOTAL CURRENT ASSETS</b>		<b>2,543,013</b>	<b>3,183,752</b>
<b>TOTAL ASSETS</b>		<b>17,341,699</b>	<b>17,369,677</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
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)
<b>Equity attributable to the equity holders of the Parent Company</b>		<b>7,877,459</b>	<b>8,009,189</b>
Non-controlling interests	4	-	(2,069)
<b>TOTAL EQUITY</b>		<b>7,877,459</b>	<b>8,007,120</b>

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

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)  
As at 31 December 2018G

	Notes	2018G SR'000	2017G SR'000
<b>NON-CURRENT LIABILITIES</b>			
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
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>7,211,834</b>	7,491,469
<b>CURRENT LIABILITIES</b>			
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
<b>TOTAL CURRENT LIABILITIES</b>		<b>2,252,406</b>	1,871,088
<b>TOTAL LIABILITIES</b>		<b>9,464,240</b>	9,362,557
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>17,341,699</b>	17,369,677

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

**EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)**
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**For the year ended 31 December 2018G**

	Attributed to equity holders of the Parent Company					Non-controlling interests	Total equity
	Share capital	Statutory reserve	Accumulated losses	Effect of reducing the ownership percentage in a subsidiary	Total		
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
Balance as at 1 January 2018G	8,500,000	11,536	(502,261)	(86)	8,009,189	(2,069)	<b>8,007,120</b>
Net loss for the year	-	-	(135,085)	-	(135,085)	(2,503)	<b>(137,588)</b>
Other comprehensive income for the year	-	-	7,927	-	7,927	-	<b>7,927</b>
Total comprehensive loss for the year	-	-	(127,158)	-	(127,158)	(2,503)	<b>(129,661)</b>
Acquisition of non-controlling interests (note 4)	-	-	(4,658)	86	(4,572)	4,572	-
<b>Balance as at 31 December 2018G</b>	<b>8,500,000</b>	<b>11,536</b>	<b>(634,077)</b>	<b>-</b>	<b>7,877,459</b>	<b>-</b>	<b>7,877,459</b>
Balance as at 1 January 2017G	8,500,000	11,536	(715,183)	(86)	7,796,267	(11,868)	<b>7,784,399</b>
Net profit for the year	-	-	240,921	-	240,921	9,903	<b>250,824</b>
Other comprehensive loss for the year	-	-	(27,999)	-	(27,999)	(104)	<b>(28,103)</b>
Total comprehensive income for the year	-	-	212,922	-	212,922	9,799	<b>222,721</b>
Balance as at 31 December 2017G	8,500,000	11,536	(502,261)	(86)	8,009,189	(2,069)	<b>8,007,120</b>

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

**EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)**
**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the year ended 31 December 2018G

	Notes	2018G	2017G
		SR'ooo	SR'ooo
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.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the year ended 31 December 2018G

	Notes	2018G	2017G
		SR'ooo	SR'ooo
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.

**EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

At 31 December 2018G

**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.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018G

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

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.



EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018G

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

#### Judgements (continued)

##### Operating lease commitments - Group as lessor

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

##### Consolidation of subsidiaries

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

#### 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.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018G

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

#### Estimations and assumptions (continued)

##### 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 2018G. 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.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018G

**4. SIGNIFICANT ACCOUNTING POLICIES (continued)****Basis of Consolidation (continued)**

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)	
			2018G	2017G
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%

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.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018G

**4. SIGNIFICANT ACCOUNTING POLICIES (continued)****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.

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018G

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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 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.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018G

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition (continued)

#### Revenue from contracts with customers for sale of properties (continued)

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.

#### 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.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018G

**4. SIGNIFICANT ACCOUNTING POLICIES (continued)****Zakat**

Zakat is provided for in accordance with the Saudi Arabian fiscal regulations. Provision for Zakat for the Company and Zakat related to the Company's ownership in the Saudi Arabian subsidiaries is charged to the consolidated statement of profit or loss and other comprehensive income. Additional amounts, if any, that may become due on finalization of an assessment are accounted for in the year in which the assessment is finalized.

**Withholding tax**

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

**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.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018G

**4. SIGNIFICANT ACCOUNTING POLICIES (continued)****Property and equipment (continued)****Recognition and measurement (continued)**

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

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

**Depreciation**

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

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

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

**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.



EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018G

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leases (continued)

#### 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.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018G

**4. SIGNIFICANT ACCOUNTING POLICIES (continued)****Investment properties (continued)**

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.

**Fair value measurement**

The Group discloses the fair value of the non-financial assets such as investment properties as part of its financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

**Intangible assets**

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018G

**4. SIGNIFICANT ACCOUNTING POLICIES (continued)****Intangible assets (continued)**

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.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018G

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018G

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial Instruments (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.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018G

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial Instruments (continued)

#### 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:

- financial liabilities at fair value through consolidated statement of profit or loss and other comprehensive income.
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
- financial guarantee contracts.
- commitments to provide a loan at a below-market commission rate.
- 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.

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018G

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial Instruments (continued)

#### 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.

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.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018G

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Employee benefits (continued)

#### Defined benefit plans (continued)

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.



EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018G

## 5. STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new standards are effective for annual periods beginning January 1, 2019G 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 2019G, 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 2019G 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 2019G, with no restatement of comparative information.

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

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018G

## 5. STANDARDS ISSUED AND NOT YET EFFECTIVE (continued)

### b) Annual Improvements to IFRSs 2015–2017G 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.

### 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.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018G

## 6. REVENUE AND COST OF REVENUE

	31 December 2018G	31 December 2017G
	SR' 000	SR' 000
<b>Revenue</b>		
Sale of properties	757,412	1,215,665
Others	250,822	222,311
	1,008,234	1,437,976
<b>Cost of revenue</b>		
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 2018G SR'000	31 December 2017G 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 2018G SR'000	31 December 2017G 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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018G

## 9. OTHER INCOME

	31 December 2018G SR'000	31 December 2017G 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

- 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 (2017G: SR 54.46 million), incurred during the year, has been reimbursed and accounted for as an other income accordingly.
- Unwinding of interest income on significant financing component amounting to SR 30.8 million (31 December 2017G: SR 35.3 million).
- 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 2018G SR'000	31 December 2017G 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

**EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

At 31 December 2018G

**11. PROPERTY AND EQUIPMENT**

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

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

	Freehold land SR'000	Buildings SR'000	Leasehold improvements SR'000	Heavy equipment & machinery SR'000	Furniture and fixtures SR'000	Office equipment SR'000	Motor vehicles SR'000	Infrastructure assets SR'000	Capital work in progress SR'000	Total 2018G SR'000
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**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 2018G	135,283	894,848	89,866	29,731	43,865	20,614	4,680	2,539,529	1,759,335	5,517,751
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**EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

At 31 December 2018G

**11. PROPERTY AND EQUIPMENT (continued)**

	Freehold land SR'000	Buildings SR'000	Leasehold improve- ments SR'000	Heavy equipment & machinery SR'000	Furniture and fixtures SR'000	Office equipment SR'000	Motor vehicles SR'000	Infrastructure assets SR'000	Capital work in pro- gress SR'000	Total 2017 GSR'000
<b>Cost:</b>										
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
<b>Depreciation:</b>										
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
<b>Net book value</b>										
At 31 December 2017G	135,283	763,201	90,270	24,740	33,084	18,473	3,593	1,960,939	2,061,850	5,091,433

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018G

## 11. PROPERTY AND EQUIPMENT (continued)

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

	31 December 2018G SR'000	31 December 2017G 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 (2017G: SR 122 million).
- d. Freehold land amounting to SR 135 million (2017G: SR 135 million), mainly relates to infrastructure assets.
- e. During the year, the Group has recorded an impairment loss of SR 7.9 million (2017G: 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 (2017G: SR 140 million) are fully depreciated but are still in use.
- g. As at 31 December 2018G, an amount of SR 108.8 million (2017G: SR 119.8 million) was capitalized as borrowing cost for the construction of property and equipment.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018G

## 12. INVESTMENT PROPERTIES

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

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

	Land	Buildings	Leasehold im- provements	Infrastructure assets	Capital work- in-progress	Total 2018G
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000

**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 2018G	2,825,208	888,312	-	352,713	1,065,915	5,132,148
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## EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018G

**12. INVESTMENT PROPERTIES (continued)**

	Land	Buildings	Leasehold improve- ments	Infrastruc- ture assets	Capital work-in-pro- gress	Total 2017G
	SR'ooo	SR'ooo	SR'ooo	SR'ooo	SR'ooo	SR'ooo
<b>Cost:</b>						
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
<b>Depreciation:</b>						
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
<b>Net book value</b>	-	-	-	-	-	-
At 31 December 2017G	2,857,646	931,548	-	369,960	926,285	5,085,439

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018G

**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 (2017G: 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 2018G, 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 Taqueem (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	Level 2	Level 3	Total
	SR'ooo	SR'ooo	SR'ooo	SR'ooo
2018G	-	47,738,807	-	47,738,807
2017G	-	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.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018G

**12. INVESTMENT PROPERTIES (continued)**

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

	2018G	2017G
	SR'ooo	SR'ooo
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 2018G, an amount of SR 37.83 million (2017G: 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 2018G SR'ooo	31 December 2017G SR'ooo
<b>Cost:</b>		
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
<b>Amortization:</b>		
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

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**14. INVESTMENT IN EQUITY ACCOUNTED INVESTEES**

	Effective ownership interest (%)		Balance as at	
	31 December 2018G	31 December 2017G	31 December 2018G	31 December 2017G
			SR'ooo	SR'ooo
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:

	2018G	2017G
	SR'ooo	SR'ooo
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

Quantitative information of PDC is as follows:

	31 December 2018G	31 December 2017G
	SR'ooo	SR'ooo
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% (2017G: 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

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**14. INVESTMENT IN EQUITY ACCOUNTED INVESTEEES (continued)****a) PORT DEVELOPMENT COMPANY (continued)**

	31 December 2018G	31 December 2017G
	SR	SR
	SR'000	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 2017G, 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 2018G.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 14. INVESTMENT IN EQUITY ACCOUNTED INVESTEES (continued)

### a) PORT DEVELOPMENT COMPANY (continued)

During the year ended 31 December 2017G, 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 2018G, the subject Swap Contracts had a negative fair value of SR 40.62 million (2017G: 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 (2017G: 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.

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At 31 December 2018G

## 14. INVESTMENT IN EQUITY ACCOUNTED INVESTEEES (continued)

### b) BIYOUTAT PROGRESSIVE COMPANY FOR REAL ESTATE INVESTMENT & DEVELOPMENT (continued)

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

	31 December 2018G SR'ooo	31 December 2017G SR'ooo
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 2018G SR'ooo	31 December 2017G SR'ooo
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 (2017G: SR 168.9 million).

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

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**16. ACCOUNTS RECEIVABLES AND OTHER CURRENT ASSETS**

	31 December 2018G SR'ooo	31 December 2017G SR'ooo
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 2018G, accounts receivable at nominal value of SR 86.4 million (2017G: SR 49.6 million) were impaired. The unimpaired accounts receivables include SR 403 million (2017G: 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 2018G SR'ooo	31 December 2017G SR'ooo
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:

	Total	Neither	Past due but not impaired				
		Past due nor impaired	< 30 days	30-60 days	61-90 days	91-180 days	> 180 days
	SR'ooo	SR'ooo	SR'ooo	SR'ooo	SR'ooo	SR'ooo	SR'ooo
31 December 2018G	647,204	47,169	18,038	35,695	17,034	50,854	478,414
31 December 2017G	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 2018G, amounted to SR 1,269.8 million.



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At 31 December 2018G

**17. MURABAHA TERM DEPOSITS WITH BANKS**

	31 December 2018G SR'000	31 December 2017G 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 2018G SR'000	31 December 2017G 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 2018G amounted to SR 11.7 million (2017G: SR 3.2 million). These deposits/balances are not under lien.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**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.

	31 December	31 December	31 December	31 December	31 December	31 December
	2018G	2017G	2018G	2017G	2018G	2017G
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
	Gross receivable		Present value of gross receivable		Unearned interest income	
Current portion	6,278	4,779	3,462	2,795	2,816	1,984
<b>Non-current portion:</b>						
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 (2017G: 850 million shares of SR 10 each), allocated as follows:

	2018G		2017G	
	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 2017G, 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.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**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 2018G SR'000	31 December 2017G 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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018G

**23. TERM LOANS (continued)**

- a. During 2011, the Parent Company received a loan of SR 5,000 million from the Ministry of Finance ("MoF") for the development of KAEC. The loan is secured against pledge of 24.7 million sqm of the Greenfield land and carries annual commission at commercial rates and was originally repayable, with a three years grace period, in seven annual 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 2020G, 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 2018G, amounted to SR 1,508.75 million (31 December 2017G: SR 1,500 million). As per the terms of the agreement, the loan is repayable in eight bi-annual installments from 30 June 2018G to 31 December 2021G. 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 2018G, amounted to SR 500 million (31 December 2017G: SR 500 million). As per the terms of the agreement, the loan is repayable in eight bi-annual installments from 20 October 2019G to 20 April 2023G. 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 2018G, amounted to SR 900 million (31 December 2017G: 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.

- 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 2018G, amounted to SR 150 million.

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**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 2018G SR'ooo	31 December 2017G SR'ooo
Balance at the beginning of the year	52,758	43,205
<b>Included in consolidated statement of profit or loss</b>		
Current service cost	13,257	12,205
Interest cost	1,856	1,728
	15,113	13,933
<b>Included in consolidated statement of other comprehensive income</b>		
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 2018G	31 December 2017G
Discount rate	4.38%	3.5%
<b>Expected rate of future salary increase</b>		
First three years	5%	4%
Thereafter	5%	4%
Mortality rate	1.17%	1.17%
Employee turnover rate	7.50%	7.50%
Retirement age	60 years	60 years

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**24. EMPLOYEES' TERMINAL BENEFITS (continued)**

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

	Change in assumption by	Impact on ETB liability Increase / (decrease)			
		31 December 2018G		31 December 2017G	
		Increase in rate	Decrease in rate	Increase in rate	Decrease in rate
		SR'000	SR'000	SR'000	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 2018G SR'000	31 December 2017G 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.

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**26. ZAKAT****Charge for the year**

	31 December 2018G SR'000	31 December 2017G 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.

**Movement in provision**

The movement in the Zakat provision is as follows:

	31 December 2018G SR'000	31 December 2017G 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	-	(7926)
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 2017G and obtained the restricted Zakat certificates.

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## 26. ZAKAT (continued)

### 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 2017G. Unrestricted Zakat certificates have been obtained up to the year 2017G.

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 2017G and obtained the Zakat certificates.

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

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

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



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**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:

Related party	Nature of transactions	Amounts of Transactions		Balance as at	
		2018G	2017G	31 December 2018G	31 December 2017G
		SR' 000	SR' 000	SR' 000	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
<b>Total</b>				<b>15,053</b>	<b>9,900</b>

**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)
<b>Total</b>				<b>(23,053)</b>	<b>(34,187)</b>

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**27. RELATED PARTY DISCLOSURE (continued)****Compensation of key management personnel of the Group**

	31 December 2018G	31 December 2017G
	SR' 000	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 2018G, are described as below:

- 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 2017G: SR 1,149 million).
- 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.
- 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 2018G	31 December 2017G
	SR' 000	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

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018G

**28. CONTINGENT LIABILITIES AND COMMITMENTS (continued)****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 2018G	31 December 2017G
	SR' 000	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**

For the year ended:	Residential business	Industrial development	Hospitality and leisure	Others	Total
	SR'000	SR'000	SR'000	SR'000	SR'000
<b>31 December 2018G</b>					
Revenue	561,626	251,047	49,109	146,452	1,008,234
<b>Results</b>					
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)
<b>31 December 2017G</b>					
Revenue	692,261	598,702	62,260	84,753	1,437,976
<b>Results</b>					
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

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018G

## 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.

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.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018G

**30. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)****a) Credit risk (continued)**

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% (2017G: 29%) of outstanding accounts receivable as at 31 December 2018G. 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	Effect on profit
	in basis points	before Zakat
		SR'ooo
<b>2018G</b>	<b>+100</b>	<b>14,310</b>
	<b>-100</b>	<b>(14,310)</b>
2017G	+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.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018G

**30. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)****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:

31 December 2018G	Less than 3 months	3 to 12 months	More than 12 months	Total
	SR'ooo	SR'ooo	SR'ooo	SR'ooo
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 2017G	Less than 3 months	3 to 12 months	More than 12 months	Total
	SR'ooo	SR'ooo	SR'ooo	SR'ooo
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 2018G, the Group's gearing ratio is 50% (2017G: 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 2018G and 31 December 2017G.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018G

### 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.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018G

**32. FAIR VALUE OF ASSETS AND LIABILITIES (continued)**

As at 31 December 2018G and 31 December 2017G, 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 2018G and 31 December 2017G.

During the year ended 31 December 2018G, 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 2018G. This information is based on the amounts before inter-company elimination.

	ECIHC	IZDCL	REOM	REM	RED
	SR'ooo	SR'ooo	SR'ooo	SR'ooo	SR'ooo
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 2017G. This information is based on the amounts before inter-company elimination.

	ECIHC	IZDCL	REOM	REM	RED
	SR'ooo	SR'ooo	SR'ooo	SR'ooo	SR'ooo
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



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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018G

**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 2018G. This information is based on the amounts before inter-company elimination.

	ECIHC	IZDCL	REOM	REM	RED
	SR'ooo	SR'ooo	SR'ooo	SR'ooo	SR'ooo
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)
<b>Attributable to:</b>					
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 2017G. This information is based on the amounts before inter-company elimination.

	ECIHC	IZDCL	REOM	REM	RED
	SR'ooo	SR'ooo	SR'ooo	SR'ooo	SR'ooo
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)
<b>Attributable to:</b>					
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, 2019G.

## Annex B - Pro Forma Consolidated Financial Information

The pro forma financial information prepared to reflect the financial position of the Issuer following the debt conversion.

**EMAAR THE ECONOMIC CITY**  
**(A Saudi Joint Stock Company)**  
**PRO FORMA CONSOLIDATED**  
**FINANCIAL INFORMATION**  
**For the year ended 31 December 2020G**  
**with**  
**INDEPENDENT PRACTITIONER'S ASSURANCE REPORT**

**KPMG Professional Services**

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Kingdom of Saudi Arabia  
Headquarter in Riyadh

Commercial Registration No 4030290792

**كي بي إم جي للاستشارات المهنية**

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المركز الرئيسي بالرياض

سجل تجاري رقم 4030290792

# Independent Practitioner's Assurance Report on the Compilation of Pro Forma Consolidated Financial Information Included in the Shareholders Circular

To the Shareholders of Emaar The Economic City (A Saudi Joint Stock Company)

## Report on the Compilation of Pro Forma Consolidated Financial Information Included in the Shareholders Circular

We have completed our assurance engagement to report on the compilation of pro forma consolidated financial information of **Emaar The Economic City** ("the Company") and its subsidiaries ("the Group") by the Group's management. The pro forma consolidated financial information consists of the pro forma consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2020, the pro forma consolidated statement of financial position as at 31 December 2020, the pro forma consolidated statement of changes in equity and the pro forma consolidated statement of the cash flows for the year ended 31 December 2020, and the related notes to the unaudited pro forma consolidated financial information. The applicable criteria on the basis of which management has compiled the pro forma consolidated financial information are specified in Appendix 13 of the Rules on the Offer of Securities and Continuing Obligations issued by the Board of the Capital Market Authority in the Kingdom of Saudi Arabia as described in Note 2.1 "Basis of preparation".

The pro forma consolidated financial information has been compiled by Group's management to illustrate the impact of the transaction and the related assumptions ("transaction") set out in Note 2.1 of the pro forma consolidated financial information on the Group's consolidated financial position as at 31 December 2020, and the Group's financial performance, changes in equity and cash flows for the year ended 31 December 2020 as if the transaction had taken place at 01 January 2020. As part of this process, information about the Group's financial position, financial performance, changes in equity and cash flows has been extracted by the Group's management from the Group's consolidated audited financial statements for the year ended 31 December 2020, on which an audit report has been published.

## The Group Management's Responsibility for the Pro Forma Consolidated Financial Information

The Group's management is responsible for compiling the pro forma consolidated financial information on the basis of Appendix 13 of the Rules on the Offer of Securities and Continuing Obligations issued by the Board of the Capital Market Authority in the Kingdom of Saudi Arabia as described in Note 2.1 "Basis of Preparation".



# Independent Practitioner's Assurance Report on the Compilation of Pro Forma Consolidated Financial Information Included in the Shareholders Circular

To the Shareholders of the Emaar The Economic City (A Saudi Joint Stock Company) (continued)

## Our Independence and Quality Control

We have complied with the independence and other ethical requirement of Code of Ethics for Professional Accountants endorsed in the Kingdom of Saudi Arabia, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

## Practitioner's Responsibilities

Our responsibility is to express an opinion, as required by Capital Market Authority Appendix 13 of the Rules on the Offer of Securities and Continuing Obligations issued by the Board of the Capital Market Authority in the Kingdom of Saudi Arabia, about whether the pro forma consolidated financial information has been compiled, in all material aspects, by the Group's management on the basis of the applicable criteria described in Note 2.1 "Basis of Preparation".

We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3420, "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" endorsed in the Kingdom of Saudi Arabia. This standard requires that the practitioner plan and perform procedures to obtain reasonable assurance about whether Group's management has compiled, in all material respects, the pro forma consolidated financial information on the basis of the applicable criteria described in Note 2.1 "Basis of Preparation".

For purposes of this engagement, we are not responsible for updating or re-issuing any reports or opinions on any historical financial information used in compiling the pro forma consolidated financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma consolidated financial information.

The purpose of pro forma consolidated financial information included in the Shareholders Circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2020 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma consolidated financial information has been compiled, in all material respects, on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Group's management in the compilation of the pro forma consolidated financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma consolidated financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the practitioner's judgment, having regard to the practitioner's understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma consolidated financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



# Independent Practitioner's Assurance Report on the Compilation of Pro Forma Consolidated Financial Information Included in the Shareholders Circular

To the Shareholders of the Emaar The Economic City (A Saudi Joint Stock Company) (continued)

## Opinion

In our opinion, the pro forma consolidated financial information has been compiled, in all material respects, on basis of the applicable criteria described in Note 2.1 "Basis of Preparation" of the pro forma consolidated financial information.

## Emphasis of Matter

We draw attention to Note 2.1 of the pro forma consolidated financial information, which states that the pro forma consolidated financial information has been prepared by the management of the Group under the assumption that as at 01 January 2020, the Group has entered into a subscription and novation agreement for an increase in share capital by converting a portion of long-term loan payable to Ministry of Finance (MOF) which amounted to SR 2,833 million to equity. However, the subscription and novation agreements will be effective once approved and ratified at the Group's Extraordinary General Meeting (EGM), planned at a future date, and the completion of all the legal formalities related to the debt conversion.

Nonetheless, for the accompanying pro forma consolidated financial information, the management has considered the transaction date to be 01 January 2020. Consequently, all the adjustments to the financial charges and the related financial captions are made on the assumption that all the legal formalities related to the debt conversion were completed and effective on 01 January 2020. The actual financial impact may differ as it is dependent on the completion of all the legal formalities related to the debt conversion, planned at a future date. Our opinion is not modified in respect of this matter.

## KPMG Professional Services

Ebrahim Oboud Baeshen  
License No. 382



Jeddah, 23 May 2021  
Corresponding to 11 Shawwal 1442H

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

## PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS

## AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020G

	Note	2020G	2019G
		SR'ooo	SR'ooo
		(Unaudited)	(Audited)
Revenue		547,287	946,807
Cost of revenue		(866,316)	(644,819)
<b>GROSS (LOSS) / PROFIT</b>		<b>(319,029)</b>	301,988
<b>EXPENSES</b>			
Selling and marketing		(79,676)	(79,491)
General and administration		(277,094)	(290,652)
Impairment loss		(167,960)	(59,881)
Depreciation		(191,786)	(199,521)
Amortisation		(8,094)	(10,479)
<b>LOSS FROM MAIN OPERATIONS</b>		<b>(1,043,639)</b>	(338,036)
<b>OTHER INCOME / (EXPENSES)</b>			
Murabaha deposit income		2,536	791
Financial charges	3	(224,633)	(268,736)
Share of results of equity accounted investee		48,065	79,883
Other income, net		115,242	109,607
<b>LOSS FOR THE YEAR BEFORE ZAKAT</b>		<b>(1,102,429)</b>	(488,391)
Zakat		(57,250)	(45,000)
<b>NET LOSS FOR THE YEAR</b>		<b>(1,159,679)</b>	(533,391)
<b>OTHER COMPREHENSIVE (LOSS) / INCOME</b>			
<b>Items that will be reclassified to pro forma consolidated statement of profit or loss in subsequent periods:</b>			
Share of other comprehensive loss from equity accounted investee		(14,170)	(18,621)
<b>Items that will not be reclassified to pro forma consolidated statement of profit or loss in subsequent periods:</b>			
Re-measurement gain on defined benefit obligations		3,552	4,810
		(10,618)	(13,811)
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>(1,170,297)</b>	(547,202)
<b>LOSS PER SHARE</b>			
Basic and diluted loss per share attributable to ordinary equity holders of the Parent Company (in SR per share)		(1.02)	(0.63)

The attached notes 1 to 8 form part of pro forma consolidated financial information.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
 PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
 As at 31 December 2020G

	2020G	2019G
	SR'000	SR'000
	(Unaudited)	(Audited)
<b>ASSETS</b>		
<b>NON-CURRENT ASSETS</b>		
Property and equipment	5,609,660	5,879,747
Right-of-use assets	84,250	113,332
Investment properties	4,906,277	5,045,060
Unbilled revenue	300,848	630,975
Development properties	1,315,494	922,763
Intangible assets	7,877	12,516
Investment in equity accounted investees	2,445,822	2,411,927
Employees' receivable - Home Ownership Scheme	117,848	115,382
<b>TOTAL NON-CURRENT ASSETS</b>	<b>14,788,076</b>	<b>15,131,702</b>
<b>CURRENT ASSETS</b>		
Current portion of employees' receivable - Home Ownership Scheme	7,785	7,213
Unbilled revenue	444,610	413,144
Development properties	145,153	720,845
Accounts receivables and other current assets	654,776	656,661
Murabaha term deposits with banks	101,358	-
Cash and cash equivalents	174,904	404,393
<b>TOTAL CURRENT ASSETS</b>	<b>1,528,586</b>	<b>2,202,256</b>
<b>TOTAL ASSETS</b>	<b>16,316,662</b>	<b>17,333,958</b>

The attached notes 1 to 8 form part of pro forma consolidated financial information.



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

## PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at 31 December 2020G

	Notes	2020G	2019G
		SR'ooo	SR'ooo
		(Unaudited)	(Audited)
EQUITY AND LIABILITIES			
EQUITY			
Share capital		11,333,333	8,500,000
Statutory reserve		11,536	11,536
Accumulated losses		(2,579,578)	(1,409,281)
TOTAL EQUITY		8,765,291	7,102,255
NON-CURRENT LIABILITIES			
Long-term loans	4	2,641,828	6,556,250
Lease liabilities		51,319	80,625
Employees' terminal benefits		61,937	63,868
Unearned financing component on long term receivables		93,906	116,388
Unearned interest income - Home Ownership Scheme		31,977	30,737
TOTAL NON-CURRENT LIABILITIES		2,880,967	6,847,868
CURRENT LIABILITIES			
Accounts payable and accruals	5	1,419,485	1,305,108
Accrued Zakat	6	110,937	121,816
Current portion of long-term loans		2,626,250	1,557,500
Short-term loans		472,933	366,398
Lease liabilities		40,799	33,013
TOTAL CURRENT LIABILITIES		4,670,404	3,383,835
TOTAL LIABILITIES		7,551,371	10,231,703
TOTAL EQUITY AND LIABILITIES		16,316,662	17,333,958

The attached notes 1 to 8 form part of pro forma consolidated financial information.

**EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)**  
**PRO FORMA CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**For the year ended 31 December 2020G**

	Share capital	Statutory reserve	Accumulated losses	Total Equity
	("ooo")	("ooo")	("ooo")	("ooo")
Balance as at 31 December 2019G	8,500,000	11,536	(1,157,305)	7,354,231
Adjustment on application of IAS 23 – Agenda decision	-	-	(251,976)	(251,976)
Balance as at 31 December 2019G (Restated)	8,500,000	11,536	(1,409,281)	7,102,255
Net loss for the year	-	-	(1,159,679)	(1,159,679)
Other comprehensive loss for the year	-	-	(10,618)	(10,618)
Total comprehensive loss for the year	-	-	(1,170,297)	(1,170,297)
Conversion of debt to equity (note 3)	2,833,333	-	-	2,833,333
<b>Balance as at 31 December 2020G (Unaudited)</b>	<b>11,333,333</b>	<b>11,536</b>	<b>(2,579,578)</b>	<b>8,765,291</b>
Balance as at 31 December 2018G	8,500,000	11,536	(634,077)	7,877,459
Adjustment on application of IAS 23 – Agenda decision	-	-	(227,393)	(227,393)
Balance as at 31 December 2018G (Restated)	8,500,000	11,536	(861,470)	7,650,066
Adjustment on initial application of IFRS 16	-	-	(609)	(609)
Adjusted balance as at 1 January 2019G	8,500,000	11,536	(862,079)	7,649,457
Net loss for the year	-	-	(533,391)	(533,391)
Other comprehensive loss for the year	-	-	(13,811)	(13,811)
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>-</b>	<b>(547,202)</b>	<b>(547,202)</b>
Balance as at 31 December 2019G (Audited)	<b>8,500,000</b>	<b>11,536</b>	<b>(1,409,281)</b>	<b>7,102,255</b>

The attached notes 1 to 8 form part of pro forma consolidated financial information.

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

## PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020G

	2020G	2019G
	SR'000	SR'000
	(Unaudited)	(Audited)
<b>OPERATING ACTIVITIES</b>		
Loss for the year before Zakat	(1,102,429)	(488,391)
<b>Adjustments to reconcile loss for the year before Zakat to net cash flows:</b>		
Depreciation	341,912	349,945
Impairment loss	264,989	59,881
Amortization	8,094	10,479
Financial charges	224,633	268,736
Share of results of equity accounted investees	(48,065)	(7,983)
Murabaha deposit income	(2,536)	(791)
Unwinding of unearned interest income	(39,495)	(2,622)
Gain on disposal of investment properties	(5,717)	(38,297)
Gain on disposal of property and equipment	-	140
Employees' benefit expense – Home Ownership Scheme	8,264	6,979
Provision for development properties	137,622	-
Provision for employees' terminal benefits	15,930	17,234
	(196,798)	175,310
<b>Working capital adjustments</b>		
Employees' receivable – Home Ownership Scheme	(10,062)	(18,799)
Unbilled revenue, net	298,661	(367,090)
Development properties	110,347	179,626
Accounts receivables and other current assets	(84,991)	42,003
Accounts payable and accruals	88,834	151,957
Net cash generated from operations	205,991	163,007
Financial charges paid	(191,175)	(318,979)
Finance charges paid on lease liabilities	(3,958)	(5,265)
Zakat paid	(68,129)	(80,027)
Employees' terminal benefits paid	(14,309)	(12,776)
Net cash used in operating activities	(71,580)	(254,040)

The attached notes 1 to 8 form part of pro forma consolidated financial information.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)  
 PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)  
 For the year ended 31 December 2020G

	2020G	2019G
	SR'000	SR'000
	(Unaudited)	(Audited)
<b>INVESTING ACTIVITIES</b>		
Investment in Murabaha term deposits	1,481,554	(8,860,894)
Murabaha term deposit encashment	(1,582,359)	8,910,894
Murabaha deposit income	2,536	1,924
Additions to property and equipment	(144,002)	(378,910)
Additions to investment properties	(12,168)	(106,557)
Proceeds from sale of investment properties	13,023	46,506
Proceeds from disposal of property and equipment	-	140
Additions to intangible assets	(3,455)	(4,379)
<b>Net cash used in investing activities</b>	<b>(244,871)</b>	<b>(391,276)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from loans	256,946	1,666,398
Repayments of loans	(162,750)	(1,245,000)
Movement in unearned interest income	17,013	53,967
Repayment of short term lease liabilities	-	(507)
Repayment of lease liabilities	(24,247)	(27,781)
<b>Net cash generated from financing activities</b>	<b>86,962</b>	<b>447,077</b>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(229,489)</b>	<b>(198,239)</b>
Cash and cash equivalents at the beginning of the year	404,393	602,632
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>174,904</b>	<b>404,393</b>

The attached notes 1 to 8 form part of pro forma consolidated financial information.

**EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)****NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (Unaudited)**

For the year ended 31 December 2020G

**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 03 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").

This pro forma consolidated financial information includes the results, assets and liabilities of the following registered branches of the Group:

Branch	Commercial Registration No.
Jeddah	4030164269
Riyadh	1010937549
Rabigh	4602006934

As at the reporting date, the Company has investments in subsidiaries, mentioned below (hereinafter referred to together as "the Group"), 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)	
			2020G	2019G
Economic Cities Investments Holding Company ("ECIHC")	Kingdom of Saudi Arabia	2010	100%	100%
Industrial Zones Development Company Limited ("IZDCL")	Kingdom of Saudi Arabia	2011	100%	100%
Economic Cities Real Estate Properties Operation and Management Company ("REOM")	Kingdom of Saudi Arabia	2013	100%	100%
Economic Cities Pioneer Real Estate Management Company ("REM")	Kingdom of Saudi Arabia	2013	100%	100%
Economic Cities Real Estate Development Company ("RED")	Kingdom of Saudi Arabia	2013	100%	100%
Emaar Knowledge Company Limited ("EKC")	Kingdom of Saudi Arabia	2015	100%	100%

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

## NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (Unaudited)

For the year ended 31 December 2020G

**2. BASIS OF PREPARATION****2.1 Statement of compliance**

The purpose of these unaudited pro forma consolidated financial information prepared by the management is to illustrate the financial impact of the increase in the issued share capital of the Company by conversion of a portion of the long-term loan to equity on the consolidated financial information of the Company as of and for the year ended 31 December 2020G, on an assumption that the event had occurred on 01 January 2020G ("transition date").

Consequently, for these unaudited proforma consolidated financial information, the management has assumed that the portion of the long-term loan payable to the Ministry of Finance ("MoF") is novated from MOF to Public Investment Fund ("PIF") through a novation agreement between MOF and PIF. Thereafter, based on a subscription agreement between the Company, the warrantors, and PIF, new shares were issued and subscribed by PIF.

Accordingly, all the adjustments to the financial charges and the related financial captions are made on the assumption that all the legal formalities related to the debt conversion, including the novation and subscription agreements, regulatory clearances, were completed and effective on 01 January 2020G.

For practicality reasons and as per the consultations with the Capital Market Authority ("CMA") by the management and their external legal advisors, the periods presented in these unaudited pro forma consolidated financial information are the years ended 31 December 2020G and 31 December 2019G.

The necessary standards on which the Group's management has compiled the conceptual consolidated financial information has been defined in Appendix 13 of the Rules on the Offer of Securities and Continuing Obligations issued by the Board of the Capital Market Authority in the Kingdom of Saudi Arabia. These unaudited pro forma consolidated financial information has been prepared on the basis of various assumptions, estimates, uncertainties, and currently available information, and are provided for illustrative purposes only (See note 3). Consequently, the accompanying unaudited pro forma consolidated financial information may not reflect the true picture of the actual financial position or results of the Group's operations, as it is dependent on the completion of all the legal formalities and regulatory clearances related to the debt conversion, planned at a future date. Further, the accompanying unaudited pro forma consolidated financial information of the Group does not purport to predict the Group's future financial position or results of operations.

The management has used the Group's audited consolidated financial statements for the year ended 31 December 2020G prepared in accordance with the International Financial Reporting Standards ("IFRS") and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants (SOCPA) as endorsed in the Kingdom of Saudi Arabia to prepare the accompanying unaudited pro forma consolidated financial information.

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

## NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (Unaudited)

For the year ended 31 December 2020G

**2. BASIS OF PREPARATION (continued)****2.2 Basis of measurement**

The accompanying unaudited pro forma consolidated financial information has been prepared under the historical cost basis, unless stated otherwise, using the accrual basis of accounting and the going concern concept.

**2.3 Functional and presentation currency**

The Group's unaudited pro forma consolidated financial information is presented in Saudi Arabian Riyals ("SR"), 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. DEBT TO EQUITY CONVERSION**

As stated in Note 2.1, the management has prepared the unaudited pro forma consolidated financial information based on the assumption that the transaction date for debt to equity conversion is 01 January 2020G. Consequently, all the adjustments to the financial charges and the related financial captions are made on the assumption that all the legal formalities and regulatory clearances related to the debt conversion, including the novation and subscription agreements, were completed and effective on 01 January 2020G.

As a result, it is assumed that effective 01 January 2020G;

- Based on the novation agreement between MOF and PIF, a portion of long term loan payable to MOF amounting to SR 2,833 million has been novated to PIF.
- Thereafter, based on the subscription agreement between the Company, its warrantors, and PIF, the long term loan payable to PIF post novation, amounting to SR 2,833 million has been converted to equity by issuance of new shares to PIF.

This has resulted in an increase in the issued share capital of the Company by SR 2,833 million, a corresponding decrease in long term loans by SR 2,833 million and related impacts on financial charges and other financial captions, as illustrated below. New shares have been issued at a par value of SR 10.

Nonetheless, the accompanying unaudited pro forma consolidated financial information may not reflect the accurate picture of the actual financial position or results of the Group's operations, as the novation of the debt payable to MOF from MOF to PIF and the subscription of shares by PIF is dependent on the completion of all the legal and regulatory formalities related to the novation and the debt conversion, planned at a future date.

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

## NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (Unaudited)

For the year ended 31 December 2020G

**3. DEBT TO EQUITY CONVERSION (continued)**

The following notes set out an explanation of how the proposed debt to equity conversion has affected the Group's unaudited pro forma consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2020G, Group's unaudited pro forma consolidated statement of financial position as at 31 December 2020G, Group's unaudited pro forma consolidated statement of changes in equity and Group's unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2020G, had the transaction taken place on 01 January 2020G.

**Pro forma consolidated statement of profit or loss and other comprehensive income**

	For the year ended 31 December 2020G	Pro forma Adjustments	For the year ended 31 December 2020G
	(Audited)	(Unaudited)	(Unaudited)
	SR'000	SR'000	SR'000
Revenue	547,287	-	547,287
Cost of revenue	(866,316)	-	(866,316)
<b>Gross loss</b>	<b>(319,029)</b>	-	<b>(319,029)</b>
<b>Expenses</b>			
Selling and marketing	(79,676)	-	(79,676)
General and administration	(277,094)	-	(277,094)
Impairment loss	(167,960)	-	(167,960)
Depreciation	(191,786)	-	(191,786)
Amortisation	(8,094)	-	(8,094)
<b>Loss from main operations</b>	<b>(1,043,639)</b>	-	<b>(1,043,639)</b>
<b>Other income / (expenses)</b>			
Murabaha deposit income	2,536	-	2,536
Financial charges	(315,568)	90,935	(224,633)
Share of results of equity accounted investee	48,065	-	48,065
Other income, net	115,242	-	115,242
<b>Loss for the year before zakat</b>	<b>(1,193,364)</b>	90,935	<b>(1,102,429)</b>
Zakat	(55,000)	(2,250)	(57,250)
<b>Net loss for the year</b>	<b>(1,248,364)</b>	88,685	<b>(1,159,679)</b>
<b>Other comprehensive (loss) / income</b>			
Share of other comprehensive loss from equity accounted investee	(14,170)	-	(14,170)
<b>Items that will not be reclassified to pro forma consolidated statement of profit or loss in subsequent periods:</b>			
Re-measurement gain on defined benefit obligations	3,552	-	3,552
	(10,618)	-	(10,618)
<b>Total comprehensive loss for the year</b>	<b>(1,258,982)</b>	88,685	<b>(1,170,297)</b>
<b>Loss per share</b>			
Basic and diluted loss per share attributable to ordinary equity holders of the Parent Company (in SR per share)	(1.47)	0.45	(1.02)



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

## NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (Unaudited)

For the year ended 31 December 2020G

**3. DEBT TO EQUITY CONVERSION (continued)****Pro forma consolidated statement of financial position**

	As at 31 December 2020G	Pro Forma Adjustments	As at 31 December 2020G
	(Audited)	(Unaudited)	(Unaudited)
	SR'000	SR'000	SR'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	5,609,660	-	5,609,660
Right-of-use assets	84,250	-	84,250
Investment properties	4,906,277	-	4,906,277
Unbilled revenue	300,848	-	300,848
Development properties	1,315,494	-	1,315,494
Intangible assets	7,877	-	7,877
Investment in equity accounted investees	2,445,822	-	2,445,822
Employees' receivable - Home Ownership Scheme	117,848	-	117,848
<b>Total non-current assets</b>	<b>14,788,076</b>	<b>-</b>	<b>14,788,076</b>
<b>Current assets</b>			
Current portion of employees' receivable - Home Ownership Scheme	7,785	-	7,785
Unbilled revenue	444,610	-	444,610
Development properties	145,153	-	145,153
Accounts receivables and other current assets	654,776	-	654,776
Murabaha term deposits with banks	101,358	-	101,358
Cash and cash equivalents	174,904	-	174,904
<b>Total current assets</b>	<b>1,528,586</b>		<b>1,528,586</b>
<b>Total assets</b>	<b>16,316,662</b>		<b>16,316,662</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	8,500,000	2,833,333	11,333,333
Statutory reserve	11,536	-	11,536
Accumulated losses	(2,668,263)	88,685	(2,579,578)
<b>Total equity</b>	<b>5,843,273</b>	<b>2,922,018</b>	<b>8,765,291</b>

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

## NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (Unaudited)

For the year ended 31 December 2020G

**3. DEBT TO EQUITY CONVERSION (continued)**

Pro forma consolidated statement of financial position (continued)

	As at 31 December, 2020G	Pro Forma Adjustments	As at 31 December, 2020G
	(Audited)	(Unaudited)	(Unaudited)
	SR'ooo	SR'ooo	SR'ooo
<b>Non-current liabilities</b>			
Long-term loans	5,475,161	(2,833,333)	2,641,828
Lease liabilities	51,319	-	51,319
Employees' terminal benefits	61,937	-	61,937
Unearned financing component on long term receivables	93,906	-	93,906
Unearned interest income - Home Ownership Scheme	31,977	-	31,977
<b>Total non-current liabilities</b>	5,714,300	(2,833,333)	2,880,967
<b>Current liabilities</b>			
Accounts payable and accruals	1,510,420	(90,935)	1,419,485
Accrued Zakat	108,687	2,250	110,937
Current portion of long-term loans	2,626,250	-	2,626,250
Short-term loans	472,933	-	472,933
Lease liabilities	40,799	-	40,799
<b>Total current liabilities</b>	4,759,089	(88,685)	4,670,404
<b>Total liabilities</b>	10,473,389	(2,922,018)	7,551,371
<b>Total equity and liabilities</b>	16,316,662	-	16,316,662

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

## NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (Unaudited)

For the year ended 31 December 2020G

## 3. DEBT TO EQUITY CONVERSION (continued)

## Pro forma consolidated statement of cash flows

	For the year ended 31 December, 2020G	Pro Forma Adjustments	For the year ended 31 December, 2020G
	(Audited)	(Unaudited)	(Unaudited)
	SR'000	SR'000	SR'000
<b>Operating activities</b>			
Loss for the year before Zakat	(1,193,364)	90,935	(1,102,429)
<b>Adjustments to reconcile loss for the year before Zakat to net cash flows:</b>			
Depreciation	341,912	-	341,912
Impairment loss	264,989	-	264,989
Amortization	8,094	-	8,094
Financial charges	315,568	(90,935)	224,633
Share of results of equity accounted investees	(48,065)	-	(48,065)
Murabaha deposit income	(2,536)	-	(2,536)
Unwinding of unearned interest income	(39,495)	-	(39,495)
Gain on disposal of investment properties	(5,717)	-	(5,717)
Gain on disposal of property and equipment	-	-	-
Employees' benefit expense – Home Ownership Scheme	8,264	-	8,264
Provision for development properties	137,622	-	137,622
Provision for employees' terminal benefits	15,930	-	15,930
	(196,798)	-	(196,798)
<b>Working capital adjustments</b>			
Employees' receivable – Home Ownership Scheme	(10,062)	-	(10,062)
Unbilled revenue, net	298,661	-	298,661
Development properties	110,347	-	110,347
Accounts receivables and other current assets	(84,991)	-	(84,991)
Accounts payable and accruals	88,834	-	88,834
<b>Net cash generated from operations</b>	205,991	-	205,991
Financial charges paid	(191,175)	-	(191,175)
Finance charges paid on lease liabilities	(3,958)	-	(3,958)
Zakat paid	(68,129)	-	(68,129)
Employees' terminal benefits paid	(14,309)	-	(14,309)
<b>Net cash used in operating activities</b>	(71,580)	-	(71,580)

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

## NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (Unaudited)

For the year ended 31 December 2020G

**3. DEBT TO EQUITY CONVERSION (continued)****Pro forma consolidated statement of cash flows (continued)**

	For the year ended 31 December, 2020G	Pro Forma Adjustments	For the year ended 31 December, 2020G
	(Audited)		(Unaudited)
	SR'000	SR'000	SR'000
<b>Investing activities</b>			
Investment in Murabaha term deposits	1,481,554	-	1,481,554
Murabaha term deposit encashment	(1,582,359)	-	(1,582,359)
Murabaha deposit income	2,536	-	2,536
Additions to property and equipment	(144,002)	-	(144,002)
Additions to investment properties	(12,168)	-	(12,168)
Proceeds from sale of investment properties	13,023	-	13,023
Proceeds from disposal of property and equipment	-	-	-
Additions to intangible assets	(3,455)	-	(3,455)
<b>Net cash used in investing activities</b>	<b>(244,871)</b>	<b>-</b>	<b>(244,871)</b>
<b>Financing activities</b>			
Proceeds from loans	256,946	-	256,946
Repayments of loans	(162,750)	-	(162,750)
Movement in unearned interest income	17,013	-	17,013
Repayment of short term lease liabilities	-	-	-
Repayment of lease liabilities	(24,247)	-	(24,247)
<b>Net cash generated from financing activities</b>	<b>86,962</b>	<b>-</b>	<b>86,962</b>
<b>Decrease in cash and cash equivalents</b>	<b>(229,489)</b>	<b>-</b>	<b>(229,489)</b>
Cash and cash equivalents at the beginning of the year	404,393	-	404,393
<b>Cash and cash equivalents at the end of the year</b>	<b>174,904</b>	<b>-</b>	<b>174,904</b>

**Share capital**

	31 December 2020G Prior to loan conversion		31 December 2020G Post loan conversion	
	Number of Shares' 000	Capital SR'000	Number of Shares' 000	Capital SR'000
Issued for cash	680,000	6,800,000	963,333	9,633,333
Issued for consideration in kind	170,000	1,700,000	170,000	1,700,000
	850,000	8,500,000	1,133,333	11,333,333

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

## NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (Unaudited)

For the year ended 31 December 2020G

**3. DEBT TO EQUITY CONVERSION (continued)****Share capital (continued)**

The increase in the issued share capital is due to conversion of a portion of long-term loan, payable to MoF, that was novated to PIF through a novation agreement; effective 01 January 2020G between MOF and PIF, to equity by issuing new shares to PIF by way of subscription agreement between the Company, its warrantors and PIF, effective 01 January 2020G. This has resulted in an increase in issued share capital and decrease in long term loans by an amount of SR 2,833 million. New shares have been issued at par value of SR 10.

The ordinary shares ownership structure before and after the loan conversion is as follows:

Shareholders	Prior to the loan conversion			Post the loan conversion		
	% Share	Saudi Riyals	No. of shares	% Share	Saudi Riyals	No. of Shares
Public Investment Fund	-	-	-	25%	2,833,333,340	283,333,334
Others	100%	8,500,000,000	850,000,000	75%	8,500,000,000	850,000,000
Total	100%	8,500,000,000	850,000,000	100%	11,333,333,340	1,133,333,334

**Long-term loans**

	For the year ended Dec 31, 2020G	Pro forma adjustments	For the year ended Dec 31, 2020G
	(Audited)		(Unaudited)
	SR'ooo	SR'ooo	SR'ooo
The balance as disclosed	5,475,161	(2,833,333)	2,641,828

Pro forma adjustments represents the increase in the issued share capital by conversion of a portion of long-term loan, payable to MoF, that was novated to PIF through a novation agreement effective 01 January 2020G, between MOF and PIF, to equity by issuing new shares to PIF, by way of subscription agreement between the Company, its warrantors and PIF, effective 01 January 2020G. This has resulted in an increase in issued share capital and decrease in long term loans by an amount of SR 2,833 million. For the purpose of debt to equity conversion, the non-current portion of long-term loan gets converted to equity as per the novation agreement. Accordingly, all the adjustments are made based on this fact. If however, the current portion of long term loan gets converted, then the adjustments to the statement of financial position will be impacted.

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

## NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (Unaudited)

For the year ended 31 December 2020G

**3. DEBT TO EQUITY CONVERSION (continued)****Other impacts**

	For the year ended Dec 31, 2020G	Pro forma adjustments	For the year ended Dec 31, 2020G
	(Audited)	(Unaudited)	(Unaudited)
	SR'000	SR'000	SR'000
Financial charges	(315,568)	90,935	(224,633)
Accrued financial charges	338,459	(90,935)	247,524
Zakat	(55,000)	(2,250)	(57,250)
Accrued Zakat	108,687	2,250	110,937
Accumulated losses	(2,668,263)	88,685	(2,579,578)

Pro forma adjustments represents the increase in the issued share capital by conversion of a portion of long-term loan, payable to MoF, that was novated to PIF through a novation agreement effective 01 January 2020G, between MOF and PIF, to equity by issuing new shares to PIF, by way of subscription agreement between the Company, its warrantors and PIF, effective 01 January 2020G. This has resulted in a decrease in the financial charges for the year ended 31 December 2020G with a corresponding impact on accrued financial charges and accumulated losses.

**4. LONG-TERM LOANS**

	31 December 2020G SR'000	Pro forma adjustments SR'000	31 December 2020G SR'000	31 December 2019G SR'000
	(Audited)	(Unaudited)	(Unaudited)	(Audited)
Ministry of Finance ("MoF") loan (see note (a) below)	5,000,000	(2,833,333)	2,166,667	5,000,000
Others (see note (b) below)	3,101,411	-	3,101,411	3,113,750
	8,101,411	(2,833,333)	5,268,078	8,113,750
Current portion of long-term loans (see note (a) and (b) below)	(2,626,250)	-	(2,626,250)	(1,557,500)
Non-current portion of long-term loans	5,475,161	(2,833,333)	2,641,828	6,556,250

- a. During 2011, the Parent Company received a loan of SR 5,000 million from the Ministry of Finance ("MoF") for the development of KAEC. The loan is secured against pledge of 24.7 million sqm of the Greenfield land and carries annual commission at commercial rates and was originally repayable, with a three years grace period, in seven annual instalments commencing from September 01, 2015. However, based on the Group's request submitted before the due date, the MoF, during September 2015, had rescheduled the loan by extending the grace period for an additional period of five years. During January 2020G, based on the discussions held with the Ministry of Finance, the MoF has rescheduled the first instalment due in June 2020G to January 2021G. Hence, the principal amount is now repayable in seven instalments, commencing from January 2021G, with accrued commission payable on an annual basis.

On 01 January 2020G, based on the subscription agreement between the Company, its warrantors and PIF, a portion of long-term loan, payable to MOF, that was novated to PIF through a novation agreement between MOF and PIF, amounting to SR 2,833 million, is converted to equity. This has resulted in an increase in issued share capital and decrease in long term loan by an amount of SR 2,833 million. (Refer note 3).

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

## NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (Unaudited)

For the year ended 31 December 2020G

**4. LONG-TERM LOANS (continued)**

- 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 2020G, amounted to SR 976.25 million (31 December 2019G: SR 976.25 million). As per the terms of the agreement, the loan is repayable in eight bi-annual instalments from June 30, 2018G to 31 December 2021G. The instalments due within twelve-months, amounting to SR 976.25 million, are classified as a current liability. The loan is secured against part of KAEC's greenfield land, having a value of SR 1,669 million, based on current outstanding exposure, held by the Parent Company, and an order note for SR 1,642.5 million as per the last revised Facilities Letter Agreement.

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 2020G, amounted to SR 437.5 million (31 December 2019G: SR 437.5 million). As per the terms of the agreement, the loan is repayable in eight bi-annual instalments from 20 October 2019G to 20 April 2023G. The instalments due within twelve-months, amounting to SR 250 million, are 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 92% 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 subject loan facilities, as at 31 December 2020G, amounted to SR 1,700 million (31 December 2019G: SR 1,700 million). As per the terms of the agreements, the loan terms are door to door eight years with three 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 three years of the loan. During the period ended 31 December 2020G, the Company has signed revised facility agreement with the commercial bank for the outstanding facility amounting to SR 1,700 million. Hence, the principal amount is now repayable after a grace period of 3 years from 2020G to 2022G, in multiple unequal semi-annual instalments from 2023G to 2030G. The loan facilities are secured against part of KAEC's greenfield land for a total required value of SR 3,000 million. Moreover, the subject loan facilities are further secured by order note of SR 1,700 million.

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

## NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (Unaudited)

For the year ended 31 December 2020G

**5. ACCOUNTS PAYABLE AND ACCRUALS**

	31 December 2020G SR'000	31 December 2019G SR'000
	(Unaudited)	(Audited)
Trade accounts payable	363,630	340,256
Accrued financial charges	247,524	218,024
Retentions payable	251,063	284,772
Accrued expenses and other payables	250,848	154,083
Contract cost accruals	187,228	132,223
Advances from customers	64,556	94,069
Amounts to be donated for charitable purposes	41,059	44,321
Amounts due to related parties	4,558	15,106
VAT payable	-	3,737
Unearned interest income - Home Ownership Scheme	3,571	3,307
Unearned income	5,448	15,210
	1,419,485	1,305,108

At 01 January 2020G, based on the subscription agreement between the Company, its warrantors and PIF, a portion of long-term loan, payable to MOF, that was novated to PIF through a novation agreement between MOF and PIF, amounting to SR 2,833 million, is converted to equity. This has resulted in a decrease in accrued financial charges by an amount of SR 90.9 million. (Refer note 3).



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

## NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (Unaudited)

For the year ended 31 December 2020G

**6. ACCRUED ZAKAT**

	31 December 2020G SR'000	31 December 2019G SR'000
	(Unaudited)	(Audited)
Current year provision	37,250	45,000
Prior year provision	20,000	-
	57,250	45,000

The provision for the year is based on the consolidated Zakat base of the Group.

**Movement in provision**

The movement in the Zakat provision is as follows:

	31 December 2020G SR'000	31 December 2019G SR'000
At the beginning of the year	121,816	156,843
Charge for the current year	37,250	45,000
Charge for the prior year	20,000	-
Payments during the year	(68,129)	(80,027)
At the end of the year	110,937	121,816

At 01 January 2020G, based on the subscription agreement between the Company, its warrantors and PIF, a portion of long-term loan, payable to MOF, that was novated to PIF through a novation agreement between MOF and PIF, amounting to SR 2,833 million, is converted to equity. This has resulted in a increase in accrued zakat charge by an amount of SR 2.25 million, which represents the management's best estimate for a possible impact arising due to the debt to equity conversion. (Refer note 3).

**EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)****NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (Unaudited)**

For the year ended 31 December 2020G

**7. 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 2020G, the Group's gearing ratio is 35% (2019G: 54%).

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 2020G and 31 December 2019G.

**8. APPROVAL OF THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION**

The unaudited Pro forma consolidated financial information was approved and authorized to issue by the Board of Directors on 5 May 2021G, corresponding to 23 Ramadan 1442H .

