

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

**UNAUDITED INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS**
For the three-months period and the year ended
December 31, 2015



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REVIEW REPORT ON THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Shareholders
Emaar The Economic City
(A Joint Stock Company)
Jeddah, Kingdom of Saudi Arabia.

Scope of review

We have reviewed the accompanying interim consolidated balance sheet of Emaar The Economic City and its subsidiaries (collectively referred as "the Group") as at December 31, 2015, the related interim consolidated statement of income for the three-months period and the year then ended, interim consolidated statement of cash flows and changes in equity for the year then ended and the attached notes 1 to 22 which form an integral part of these interim condensed consolidated financial statements. These interim condensed consolidated financial statements are the responsibility of the Group's management and have been prepared by them and submitted to us together with all the information and explanations, which we required. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

We conducted our review in accordance with the Auditing Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A review consists principally of applying analytical procedures to financial data and information and making inquiries of Group's personnel responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Review conclusion

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

For KPMG Al Fozan & Partners

Ebrahim Oboud Baeshen
License No. 382



Jeddah, Rabi Al Thani 10, 1437H
Corresponding to January 20, 2016

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED BALANCE SHEET (UNAUDITED)
As at December 31, 2015

	<u>Notes</u>	<u>2015</u> (SR'000) (Unaudited)	<u>2014</u> (SR'000) (Audited)
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	4	1,898,851	2,012,944
Murabaha term deposits with banks	5	1,012,979	872,685
Accounts receivable and other current assets		358,322	225,487
Development properties	6	1,575,841	1,271,562
Current portion of employees' receivable - Home Ownership Scheme		2,126	--
Total current assets		4,848,119	4,382,678
Non-current assets:			
Investment properties	7	5,217,389	4,364,638
Property and equipment	8	5,495,223	5,012,368
Investment in an equity accounted investee	9	2,345,651	2,338,085
Employees' receivable - Home Ownership Scheme		34,530	--
Deferred costs	10	5,857	7,113
		13,098,650	11,722,204
Assets classified as held for disposal	11	90,891	101,250
Total non-current assets		13,189,541	11,823,454
Total assets		18,037,660	16,206,132
<u>LIABILITIES AND EQUITY</u>			
Current liabilities:			
Accounts payable and accruals	12	889,962	883,588
Current portion of long-term loans	14	--	753,365
Total current liabilities		889,962	1,636,953
Non-current liabilities:			
Long-term loans	14	7,100,000	5,377,815
Deferred contribution	15	1,496,629	953,882
Long-term provision		5,099	5,099
Unearned interest income - Home Ownership Scheme		6,158	--
Employees' end of service benefits		23,117	16,990
Total non-current liabilities		8,631,003	6,353,786
Total liabilities		9,520,965	7,990,739
Equity:			
Share capital	16	8,500,000	8,500,000
Statutory reserve	17	1,869	--
Retained earnings / (accumulated losses)		16,820	(284,028)
Effect of reducing the ownership percentage in a subsidiary	18	(86)	(86)
Total equity attributable to the Company's shareholders		8,518,603	8,215,886
Non-controlling interests		(1,908)	(493)
Total equity		8,516,695	8,215,393
Total liabilities and equity		18,037,660	16,206,132

The accompanying notes 1 to 22 form an integral part of these unaudited interim condensed consolidated financial statements.

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)
For the three-months period and the year ended December 31, 2015

	Notes	For the three-months period ended		For the year ended	
		December 31, 2015 (SR'000) (Unaudited)	December 31, 2014 (SR'000) (Unaudited)	December 31, 2015 (SR'000) (Unaudited)	December 31, 2014 (SR'000) (Audited)
Revenue		386,826	303,003	1,022,957	1,064,342
Costs of revenue		(210,166)	(90,003)	(456,184)	(336,626)
Gross profit		176,660	213,000	566,773	727,716
Expenses:					
Selling and marketing		(34,544)	(61,425)	(89,746)	(95,425)
General and administration		(65,583)	(67,326)	(193,570)	(176,488)
Land contribution	7.2&7.3	88,509	--	84,237	--
Depreciation		(9,336)	(6,369)	(32,289)	(28,073)
Amortisation		(314)	(1,674)	(1,255)	(1,674)
Impairment loss	8	(4,643)	--	(15,803)	--
Total expenses		(25,911)	(136,794)	(248,426)	(301,660)
Profit from operations		150,749	76,206	318,347	426,056
Financial charges, net		(10,541)	(7,530)	(46,417)	(54,951)
Murabaha deposit income		7,613	4,662	21,868	13,873
Share of profit / (loss) from an equity accounted investee		3,878	(876)	7,565	19,039
Other income		8,838	359	28,523	1,405
Income before Zakat and non- controlling interests		160,537	72,821	329,886	405,422
Zakat	20	(2,225)	(4,100)	(28,584)	(26,600)
Income before non-controlling interests		158,312	68,721	301,302	378,822
Share of non-controlling interests in the net loss of consolidated subsidiaries		136	427	1,415	856
Net income attributable to the Company's shareholders		158,448	69,148	302,717	379,678
Earnings per share on profit from operations for the period/year- SR	19	0.18	0.09	0.37	0.50
Earnings per share on net income for the period/year attributable to Company's shareholders - SR	19	0.19	0.08	0.36	0.45

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of these unaudited interim condensed consolidated financial statements.

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
For the year ended December 31, 2015

	Notes	2015 (SR'000) (Unaudited)	2014 (SR'000) (Audited)
Operating activities:			
Income before Zakat and non-controlling interests		329,886	405,422
Adjustments for:			
Depreciation		88,737	63,850
Provision for employees' end of service benefits		6,851	6,648
Share of profit from an equity accounted investee		(7,565)	(19,039)
Financial charges, net		46,417	54,951
Murabaha deposit income		(21,868)	(13,873)
Impairment loss		15,803	--
Provision for doubtful debts		9,915	327
Land contribution	7.2&7.3	(84,237)	--
Amortisation		1,255	1,674
Unwinding of unearned interest income - Home Ownership Scheme		(984)	--
Employee benefit expense - Home Ownership Scheme		3,915	--
Gain on disposal of property and equipment		--	(353)
		<u>388,125</u>	<u>499,607</u>
Changes in operating assets and liabilities:			
Accounts receivable and other current assets		(137,297)	335,791
Development properties		(277,634)	(17,466)
Accounts payable and accruals		(41,439)	206,806
Cash (used in) /generated from operations		<u>(68,245)</u>	<u>1,024,738</u>
Deferred contribution			
Zakat paid		595,140	470,486
Finance charges paid		(55,612)	(6,268)
Employees' end of service benefits paid		(463,102)	--
		<u>(724)</u>	<u>(1,738)</u>
Net cash generated from operating activities		<u>7,457</u>	<u>1,487,218</u>
Investing activities:			
Purchase of property and equipment		(1,301,264)	(902,771)
Proceeds from disposal of property and equipment		--	353
Deferred costs		--	(8,787)
Net movement in Murabaha term deposits with banks		(140,294)	(610,857)
Murabaha deposit income		20,330	13,873
Net movement in investment properties		(50,322)	(268,689)
Investment in an equity accounted investee		--	(1,185,720)
Net cash used in investing activities		<u>(1,471,550)</u>	<u>(2,962,598)</u>
Financing activities:			
Net movement in short-term loans		--	(33,721)
Net movement in long-term loans		1,350,000	750,000
Net movement in non-controlling interests		--	5
Net cash generated from financing activities		<u>1,350,000</u>	<u>716,284</u>
Net change in cash and cash equivalents		<u>(114,093)</u>	<u>(759,096)</u>
Cash and cash equivalents at the beginning of the year		<u>2,012,944</u>	<u>2,772,040</u>
Cash and cash equivalents at the end of the year	4	<u>1,898,851</u>	<u>2,012,944</u>

The accompanying notes 1 to 22 form an integral part of these unaudited interim condensed consolidated financial statements.

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EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
For the year ended December 31, 2015

2015	Equity attributable to the shareholders' of the Company						Total (SR'000)
	Share capital (SR'000)	Statutory reserve (SR'000)	(Accumulated losses) / Retained earnings (SR'000)	Effect of reducing the ownership percentage in a subsidiary (SR'000)	Total shareholders' equity (SR'000)	Non-controlling interests (SR'000)	
Balance at January 1	8,500,000	--	(284,028)	(86)	8,215,886	(493)	8,215,393
Net income for the year	--	--	302,717	--	302,717	(1,415)	301,302
Transfer to statutory reserve	--	1,869	(1,869)	--	--	--	--
Balance at December 31	<u>8,500,000</u>	<u>1,869</u>	<u>16,820</u>	<u>(86)</u>	<u>8,518,603</u>	<u>(1,908)</u>	<u>8,516,695</u>
2014							
Balance at January 1	8,500,000	--	(663,706)	--	7,836,294	272	7,836,566
Net income for the year	--	--	379,678	--	379,678	(856)	378,822
Effect of reducing the ownership percentage in a subsidiary	--	--	--	(86)	(86)	--	(86)
Net movement in non-controlling interest	--	--	--	--	--	91	91
Balance at December 31	<u>8,500,000</u>	<u>--</u>	<u>(284,028)</u>	<u>(86)</u>	<u>8,215,886</u>	<u>(493)</u>	<u>8,215,393</u>

The accompanying notes 1 to 22 form an integral part of these unaudited interim condensed consolidated financial statements.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

For the three-months period and year ended December 31, 2015

1. THE COMPANY AND ITS ACTIVITIES

Emaar The Economic City ("the Company") is a Saudi Joint Stock Company incorporated under Ministerial Resolution No. 2533 dated Ramadan 3, 1427H, corresponding to September 21, 2006 and registered in the Kingdom of Saudi Arabia under Commercial Registration number 4030164269 dated Ramadan 8, 1427H, corresponding to September 26, 2006. 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, construction on behalf of other parties. The main activity of the Company is the development of the King Abdullah Economic City (KAEC). The registered office of the Company has been shifted to Rabigh. The Commercial Registration number of the registered office in Rabigh is 4602005884 dated Rabi Al Awwal 6, 1436H, corresponding to December 28, 2014.

The registered office is located at the following address:

P.O. Box No. 2338
Rabigh, King Abdullah Economic City, 23964
Kingdom of Saudi Arabia.

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. The Company and its subsidiaries constitute "the Group".

<u>Name</u>	<u>Country of incorporation</u>	<u>Year of incorporation</u>	<u>Effective ownership interest</u>	
			<u>2015</u>	<u>2014</u>
Economic Cities Investments Holding Company (ECIHC)	Kingdom of Saudi Arabia	2010	99%	99%
Industrial Zones Development Company Limited (IZDCL)	Kingdom of Saudi Arabia	2011	98%	98%
Economic Cities Real Estate Operation and Management Company Limited (REOM)	Kingdom of Saudi Arabia	2013	98%	98%
Economic Cities Pioneer Real Estate Management Company Limited (REM)	Kingdom of Saudi Arabia	2013	98%	98%
Economic Cities Real Estate Development Company Limited (RED)	Kingdom of Saudi Arabia	2013	98%	98%
Emaar Knowledge Company Limited (EKC)*	Kingdom of Saudi Arabia	2015	100%	-

*During the quarter ended December 31, 2015, the Company invested SR 9.6 million that represents 96% of the share capital of EKC. The balance 4% are owned by subsidiaries of the Company.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

For the three-months period and year ended December 31, 2015

2. BASIS OF PRESENTATION

Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia and the Accounting Standard on Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA).

Functional and presentation currency

These interim condensed consolidated financial statements are presented in Saudi Arabian Riyals (SR) which is the functional currency of the Group. All financial information presented in SR has been rounded to the nearest thousand.

The interim results may not be an indicator of the annual results of the Group. These interim condensed consolidated financial statements should be read in conjunction with the latest annual audited consolidated financial statements of the Group.

Accounting convention

The interim condensed consolidated financial statements have been prepared under the historical cost convention modified to include the measurement at fair value of assets classified as held for disposal using accrual basis of accounting and going concern assumption.

Use of estimates and judgements

The preparation of interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected. The key areas requiring significant management judgments and estimates are as follows:

Classification of investment properties

The Group determines whether a property qualifies as an investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by the Group.

Impairment of accounts receivable

An estimate of the collectible amount of accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and an allowance applied according to the length of time past due.

Cost to complete the projects

As part of application of percentage of completion method on contract accounting, the cost to complete the project is estimated. 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.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

For the three-months period and year ended December 31, 2015

2. BASIS OF PRESENTATION (continued)

Use of estimates and judgements (continued)

Impairment on assets classified as held for disposal

Assets classified as held for disposal are assessed for impairment at regular intervals in order to reflect adequate recoverable amount in the interim condensed consolidated financial statements, based on the prevailing market value obtained from professionals involved in the sale of these assets.

Long-term provision

Long-term provision is assessed periodically based on excess costs to be incurred in providing property and city maintenance services to residential customers, to reflect the probable outflow of resources required to settle the obligation.

Useful lives of property and equipment

The management determines the estimated useful lives of property and equipment for calculating depreciation. This estimate is determined after considering expected usage of the assets and physical wear and tear. Management reviews the residual value and useful lives annually and change in depreciation charges, if any, are adjusted in current and future periods.

Impairment of property and equipment and investment property

Property and equipment and investment property are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable in part or full. Whenever the carrying amount of these assets exceeds their recoverable amount, an impairment loss is recognized in the interim consolidated statement of income. The recoverable amount is the higher of an asset's net selling price and the value in use. The net selling price is the amount obtained from the sale of an asset in an arm's length transaction while value in use is present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

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

Impairment of other non-financial assets

The Group assesses, at each reporting date or more frequently if events or changes in circumstances indicate, 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, which is higher of fair value less cost to sell and its value in use.

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, 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 interim condensed consolidated financial statements continue to be prepared on the going concern basis.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

For the three-months period and year ended December 31, 2015

3. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies used by the Group for the preparation of these interim condensed consolidated financial statements are consistent with those used for the preparation of the annual consolidated financial statements:

Basis of consolidation

These interim condensed consolidated financial statements include the financial statements of the Company and its subsidiaries as set out in note 1. Investment in an equity accounted investee is accounted for using the equity method.

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the right to variability of returns from its involvement with the investee and its ability to affect those returns through its power over the investee, is considered. The financial statements of subsidiaries, which are prepared for the same reporting period as the Parent Company using consistent accounting policies, are included in the interim condensed consolidated financial statements from the date that control commences until the date control ceases.

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

Non-controlling interests

Non-controlling interest ("NCI") represents the interest in subsidiary companies, not held by the Company which are measured at their proportionate share in the subsidiary's identifiable net assets. Transactions with NCI parties are treated as transactions with parties external to the Group.

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.

Accounts receivable

Accounts receivable are stated at original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Development properties

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

For the three-months period and year ended December 31, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Development properties (continued)

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

Investment properties

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

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

Property and equipment

Property and equipment is stated at cost less accumulated depreciation and any impairment in value. Freehold land is not depreciated. The cost less estimated residual value of property and equipment is depreciated on a straight line basis over the following estimated useful lives of the assets.

	<u>Years</u>
Buildings	20-30
Furniture and fixtures	4
Motor vehicles	4
Heavy equipment and machinery	5-10
Leasehold improvements	2
Office equipments	3
Infrastructure assets	10-30

Expenditure for repair and maintenance are charged to the interim consolidated statement of income. Improvements that increase the value or materially extend the useful life of the related assets are capitalised. Interest on long term loan that is directly related to qualifying property and equipment is capitalised.

Investment in an equity accounted investee

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

For the three-months period and year ended December 31, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in an equity accounted investee (continued)

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

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

Employee Home Ownership Scheme:

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

Deferred costs

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

Non-current assets held for disposal

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

Accounts payable and accruals

Liabilities are recognised for amounts to be paid in the future for services received or when risks and rewards associated with the goods are transferred to the Group, whether billed by the supplier or not.

Loans and borrowings

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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For the three-months period and year ended December 31, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred contribution

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

Employees' end of service benefits

Provision is made for amounts payable under the Saudi Arabian labour law applicable to employees' accumulated periods of service at the interim consolidated balance sheet date.

Provisions

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

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. 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. Currently, the Company is principally involved in sale of plots and apartments and villas in KAEC and certain ancillary services such as hospitality, education and property leasing, which are not significant to the Company's business on an overall basis. Accordingly, the management believes that at this stage, the Company's business activity falls within a single business segment which is subject to same risks and returns and non-disclosure of segment information may not affect the decisions of the users of these interim condensed consolidated financial statements.

Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the interim consolidated statement of income as follows:

Sale of property

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

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

For the three-months period and year ended December 31, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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

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

Lease of investment property

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

Services

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

Hospitality revenue

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

School revenue

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

Murabaha term deposits with banks

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

Costs of revenue

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

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

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

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

Expenses

Selling and marketing expenses are those that specifically relate to the selling and marketing activities of the Group. All other expenses are classified as general and administration expenses.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs that are directly attributable to the construction of an asset are capitalised using capitalisation rate up to the stage when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed and, thereafter, such costs are charged to the interim consolidated statement of income.

Operating leases

Operating lease payments are recognized as an expense in the interim consolidated statement of income on a straight line basis over the lease term.

Zakat

Zakat is provided for in accordance with Saudi Arabian Department of Zakat and Income Tax (DZIT) regulations. The provision is charged to the interim consolidated statement of income.

Foreign currencies

Transactions in foreign currencies are recorded in Saudi Arabian Riyals at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the interim balance sheet date. All differences are taken to the interim consolidated statement of income.

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

Offsetting

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

4. CASH AND CASH EQUIVALENTS

	<u>2015</u> (SR'000)	<u>2014</u> (SR'000)
Cash and bank balances	804,951	1,373,944
Short-term Murabaha deposits (note 5)	<u>1,093,900</u>	<u>639,000</u>
	<u>1,898,851</u>	<u>2,012,944</u>

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5. MURABAHA TERM DEPOSITS WITH BANKS

Murabaha term deposits with banks represent funds placed with commercial banks at the prevailing market rates and comprised of the following:

	<u>2015</u> (SR'000)	<u>2014</u> (SR'000)
Murabaha deposits	2,106,879	1,511,685
Short-term Murabaha deposits (note 4)	<u>(1,093,900)</u>	<u>(639,000)</u>
	<u>1,012,979</u>	<u>872,685</u>

6. DEVELOPMENT PROPERTIES

Development properties represent costs incurred to-date on projects under progress at KAEC, intended to be sold, and costs incurred to-date plus attributable profit / (loss) on sold properties less progress billings made in respect of sold properties under development.

Development properties also include plots of land, amounting to SR 516 million (2014: SR 455 million) which have been identified by the management to be sold in their present condition. Accordingly, these have been reclassified from investment properties to development properties.

7. INVESTMENT PROPERTIES

Investment properties include the following:

	<u>2015</u> (SR'000)	<u>2014</u> (SR'000)
Greenfield land and associated cost (note 7.1)	3,035,931	3,148,733
Properties under construction	1,288,171	679,335
Properties completed		
Cost	929,543	552,114
Accumulated Depreciation	<u>(36,256)</u>	<u>(15,544)</u>
	<u>893,287</u>	<u>536,570</u>
	<u>5,217,389</u>	<u>4,364,638</u>

- 7.1 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. 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 3,036 million (2014: SR 3,149 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 Ministry of Finance against a long-term loan of SR 5,000 million (note 14.1). Loan obtained from commercial banks is also secured against KAEC Greenfield land. However legal formalities pertaining to security of such additional borrowings are in progress (note 14.2 and 14.3). Greenfield land measuring 14.1 million square meters has been earmarked for lease to industrial customers.

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7. INVESTMENT PROPERTIES (continued)

- 7.2** During the year ended December 31, 2015, the Board of Directors of the Company resolved, and thereafter approved by the General Assembly of the Company, to provide a free of cost land amounting to SAR 4.3 million measuring 0.3 million square meters to Technical and Vocational Training Centre.
- 7.3** During the year ended December 31, 2013, the Board of Directors of the Company had resolved to provide a land amounting to SAR 88.5 million to a Government body free of cost for the development of automotive cluster in KAEC. However, during the year ended December 31, 2015, the automotive cluster project was relocated and will no longer be hosted in KAEC. Consequently, the land provided during the year ended December 31, 2013, has been recorded and will be used by the Group in its future projects.

8. PROPERTY AND EQUIPMENT

Property and equipment includes capital work in progress amounting to SR 2,771 million (2014: SR 2,799 million), which represents construction costs in respect of the infrastructure and other projects at KAEC. During the quarter ended December 31, 2015, an impairment loss amounting to SR 4.6 million against property and equipment has been charged to the interim consolidated statement of income.

9. INVESTMENT IN AN EQUITY ACCOUNTED INVESTEE

	<u>2015</u> (SR '000)	<u>2014</u> (SR '000)
Investment	2,487,520	2,487,520
Purchase of shares from other shareholder	117,480	117,480
	2,605,000	2,605,000
Cumulative share of profit from equity accounted investee	28,365	20,799
Elimination of share of profit on sale of land and commission income from equity accounted investee	(287,714)	(287,714)
	<u>2,345,651</u>	<u>2,338,085</u>

On Jumada Awwal 14, 1431H (corresponding to April 29, 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 agreement, the Company's shareholding in PDC was agreed to be 34%.

During the year ended December 31, 2012, to contribute a part of the equity funding under the agreement, the Company invested SR 145 million in the form of land, infrastructure and other development cost.

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9. INVESTMENT IN AN EQUITY ACCOUNTED INVESTEE (continued)

On October 8, 2013 the shareholders of PDC had resolved to increase the shareholdings of the Company to 74% by converting additional capital contribution to equity in PDC. Consequently, the land of SR 200 million contributed as part of equity funding during the period ended September 30, 2013 had been reclassified as receivable from PDC.

On April 16, 2014 the shareholders of PDC have amended the shareholders agreement of October 8, 2013. As per the revised terms, the Company had purchased 11,748,000 registered shares at par in PDC from other shareholder for a cash consideration of SAR 118 million. Accordingly, the Company's shareholding in PDC had reached to 51%.

The Company also invested cash of SR 1,701 million in PDC. Additional capital contribution also includes SAR 640 million which had been reclassified from loan to an equity accounted investee under the agreement dated October 8, 2013. The legal formalities in respect of conversion of additional capital contribution of SR 2,252 million to equity had been completed on July 17, 2014 that consequently reduced the Company's shareholding in PDC 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 reclassified the investment in an associate to "Investment in an equity accounted investee".

Furthermore, as per terms of the revised agreement, the Company had also provided a corporate guarantee to a commercial bank, amounting to SAR 269 million, limited to its revised shareholding percentage in PDC, to allow PDC to secure Shariah compliant commodity Murabaha facility to partially finance the construction costs of the Port.

During the year ended December 31, 2015, the Company has provided an additional corporate guarantee to a commercial bank, amounting to SR 500 million, limited to its shareholding percentage in PDC, to allow PDC to secure Shariah compliant commodity Murabaha facility.

10. DEFERRED COSTS

	<u>2015</u> (SR'000)	<u>2014</u> (SR'000)
Deferred costs	8,787	8,787
Amortisation	<u>(2,930)</u>	<u>(1,674)</u>
	<u>5,857</u>	<u>7,113</u>

11. ASSETS CLASSIFIED AS HELD FOR DISPOSAL

The Group has identified certain assets which are to be disposed off in line with the strategic business plans of the Group. Accordingly, these assets are classified as held for disposal. During the year ended December 31, 2015, these assets have been reviewed for impairment which indicated an impairment of SR 10.4 million (2014: SR Nil) and accordingly has been recognised in the interim consolidated statement of income. As at December 31, 2015, the assets held for disposal amount to SR 90.9 million (2014: SR 101.3 million).

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12. ACCOUNTS PAYABLE AND ACCRUALS

	<u>2015</u> (SR'000)	<u>2014</u> (SR'000)
Accounts payable	124,912	186,091
Retentions payable	169,295	78,809
Advance from customers	207,358	187,091
Accrued expenses and other payables	122,354	139,865
Contract cost accruals	91,975	160,935
Amount to be donated for charitable purposes (note 12.2)	66,756	70,983
Accrued financial charges (note 12.1)	74,153	--
Zakat payable	30,263	57,291
Amounts due to affiliates (note 13)	2,208	2,523
Unearned interest income - Home Ownership Scheme	688	--
	<u>889,962</u>	<u>883,588</u>

12.1 During the year ended December 31, 2015, accrued financial charges relating to long-term loans amounting to SR 66,245 million (2014: SR Nil) have been reclassified from long-term loans to accounts payable and accruals (note 14).

12.2 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.

13. RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence on the other party in making financial and operating decisions.

Related parties include the shareholders, directors, associated companies and key management personnel of the Company.

Related party transactions mainly represent services, expenses and other transactions which are undertaken at mutually agreed terms and approved by the management.

In addition to the disclosures set out in note 9, significant related party transactions for the year ended December 31 are described as under:

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13. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

<u>Related party</u>	<u>Nature of transaction</u>	<u>2015</u>		<u>2014</u>	
		<u>Amount of transaction</u> (SR'000)	<u>Balance receivable/ (payable)</u> (SR'000)	<u>Amount of transaction</u> (SR'000)	<u>Balance receivable/ (payable)</u> (SR'000)
<i>Affiliates</i>	Sale of land	--	--	760,000	--
	Expenses incurred by affiliates on behalf of the Group	180	(35)	6	(349)
	Expenses incurred by Group on behalf of an affiliate	--	89	--	89
	Services provided to the Group	--	(2,174)	--	(2,174)
	Services provided to the affiliate	2,321	412	--	--
	Purchase from affiliate	4,921	--	79,327	--
	Sale of properties	--	--	133,659	--
<i>Key management personnel</i>	Remuneration	27,788	(18,342)	22,913	(14,737)
	Sale of properties	8,464	--	45,843	35
<i>Board of Directors</i>	Meeting fee	2,290	--	2,525	(2,525)
	Sale of properties	--	--	24,430	1,634

14. LONG-TERM LOANS

	<u>2015</u> SR'000	<u>2014</u> SR'000
Balance at January 1	6,131,180	5,274,789
Loans obtained during the year	1,350,000	750,000
Commission for the year	105,721	106,391
Commission paid during the year	(420,656)	--
Commission reclassified to accounts payable and accruals (note 12.1)	(66,245)	--
	<u>7,100,000</u>	<u>6,131,180</u>
Current portion of long-term loan (note 14.1)	--	(753,365)
Long-term loans	<u>7,100,000</u>	<u>5,377,815</u>

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14. LONG-TERM LOANS (continued)

14.1 During 2011, the 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 (note 7.1) and carries annual commission at commercial rates and was originally repayable, with a three years grace period, in seven annual instalments commencing from June 1, 2015. However, based on the Company's request submitted before the due date, the MoF, during September 2015, has rescheduled the loan by extending the grace period for an additional period of five years. The principal amount is now repayable in seven annual instalments commencing from June 2020 with accrued commission payable on an annual basis. Further, the accrued commission on the loan up to 31 May 2015 has been paid during September 2015.

14.2 During 2014, the Company has signed an Islamic facility agreement with a commercial bank for SR 2,000 million Murabaha liquidity finance facility that carries commission at commercial rates. As per the terms of the agreement, the loan is repayable in eight bi-annual instalments from June 30, 2018 to December 31, 2021. The loan is secured against the pledge of shares of the Company in PDC and an order note for SR 2,500 million.

During the year ended December 31, 2015, the Company has signed an Islamic facility agreement with a commercial bank for SR 1,000 million that carries commission at commercial rates. As per the terms of the agreement, the loan is repayable in eight bi-annual instalments from October 20, 2019 to April 20, 2023. The loan is secured against KAEC's Greenfield Land held by the Company and an order note for SR 1,200 million (note 7.1).

14.3 During 2014 and year ended December 31, 2015, the Company has signed two facility agreements with a commercial bank for SR 1,000 million each, carrying commission at prevailing commercial rates. As per the terms of the agreements, the loan terms are door to door 8 years with 3 years grace period starting from respective dates of the agreements. In order to comply with the Sharia principles, an additional facility of SR 250 million has been arranged by the bank linked to each of the facility, to permit the rollover (repayment and drawdown) so that the principal amount is available to the Company for the first 3 years of the loan. Each loan facility is secured against Greenfield Land at KAEC and an order note for SR 1,250 million each (note 7.1).

15. DEFERRED CONTRIBUTION

	<u>2015</u> SR'000	<u>2014</u> SR'000
Balance at January 1	953,882	532,252
Collections during the year	598,499	470,486
Amortisation during the year	<u>(55,752)</u>	<u>(48,856)</u>
Balance at December 31	<u>1,496,629</u>	<u>953,882</u>

16. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Company consists of 850 million shares of SR 10 each amounting to SR 8,500 million (2014: 850 million shares of SR 10 each amounting to SR 8,500 million).

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17. STATUTORY RESERVE

In accordance with its By-laws and the Regulations for Companies in Kingdom of Saudi Arabia, the Company is required to transfer 10% of its net income for the year to a statutory reserve until such reserve equals 50% of its share capital. This Statutory Reserve is not available for distribution to the shareholders. During the year, the Company has created statutory reserve equal to 10% of its net income for the year after setting off its accumulated losses.

18. 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 December 31, 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-realised loss under equity.

19. EARNINGS PER SHARE

Earnings per share on profit from operations are calculated by dividing the profit from operations by the weighted average number of ordinary shares of the Company in issue during the year.

Earnings per share on net income attributable to shareholders of the Company are calculated by dividing the net income attributable to the Company's shareholders by the weighted average number of ordinary shares in issue of the Company during the year.

The calculation of diluted earnings per share is not applicable to the Company.

20. ZAKAT

Charge for the year

The Group has made a provision of SR 28.6 million for the year ended December 31, 2015 (2014: SR 26.6 million).

Status of assessments

EEC filed the Zakat returns up to the year 2014 and obtained restricted Zakat certificates.

The DZIT 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 transferred to the Higher Appeal Committee (HAC) which issued a decision supporting the DZIT. The Company appealed against the HAC decisions at the Bureau of Grievance. The Company is of the view that given a fair review of the assessments, their view may prevail. No provision is made for the additional Zakat and withholding tax liability in these interim condensed consolidated financial statements.

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20. ZAKAT (continued)

Status of assessments (continued)

The DZIT issued the Zakat assessment for the years 2009 to 2011 and claimed additional Zakat, withholding tax and delay penalty differences of SR 64.7 million. The Company had filed an objection against this assessment and submitted the documents supporting the objection. The DZIT issued an amended assessment for the years 2009 to 2011, which showed a reduction of Zakat and withholding tax differences by SR 30.2 million. The Company accepted the amended assessment and settled the Zakat, withholding tax and delay penalties differences of SR 34.6 million.

IZDCL finalized its Zakat status up to the year 2011 and filed the Zakat returns up to the year 2014 and obtained the Zakat certificates.

ECIHC finalized its Zakat status up to the year 2011 and filed the Zakat returns up to the year 2014 and obtained the Zakat certificates.

REOM, REM and RED have filed the Zakat returns up to the year 2014 and obtained the Zakat certificates.

21. CONTINGENT LIABILITIES AND COMMITMENTS

- a) The Group has contracted with its industrial customers to provide property management and city maintenance services. The costs of providing these services to industrial customers may be higher than the fee or charges that the Group may be able to charge to its industrial customers. The financial effect, if any, is not currently practicable to estimate.
- b) During the year ended December 31, 2015, one of the customers filed a claim against the company relating to the handover of a property and the damages due to alleged delays, against which the customer had failed to pay the due amounts on due dates. Though Appellate Court has issued a ruling against the Company, subsequently the Company filed an appeal with Supreme Justice Council against the ruling. The Company firmly believes that the case will be decided in their favour. Pending appeal decision, the financial effect, if any, cannot be estimated reliably.
- c) The Group had commitments as at December 31, 2015 amounting to SR 2,361 million (2014: SR 2,963 million) related to future capital expenditure for the development of KAEC.

22. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised to issue by the Board of Directors on Rabi Al Thani 10, 1437H, corresponding to January 20, 2016.