EMAAR THE ECONOMIC CITY
(A SAUDI JOINT STOCK COMPANY)

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018

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Building a better
working world

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INDEPENDENT AUDITORS' REVIEW REPORT ON THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Emaar The Economic City ("Emaar") - a Saudi Joint Stock Company ("the Company" or "the Parent Company") and its subsidiaries (collectively referred to as "the Group") as at 31 March 2018 and the related interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these interim condensed consolidated financial statements in accordance with the International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" as endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia.

for Ernst & Young

Ahmed I. Reda
Certified Public Accountant
License No. 356

23 Sha'ban 1439H
9 May 2018

Jeddah

17/91/AIR

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)

For the three-month period ended 31 March 2018

	Note	***Three-month period ended 31 March 2018 SR'000***	*Three-month period ended 31 March 2017 SR'000*
Revenue	4	**280,771**	318,234
Cost of revenue	4	**(184,106)**	(202,533)
GROSS PROFIT		**96,665**	115,701
EXPENSES			
Selling and marketing		**(13,055)**	(6,580)
General and administration		**(57,010)**	(51,823)
Impairment loss		**-**	(45,313)
Depreciation		**(45,348)**	(33,630)
Amortisation		**(3,457)**	(3,793)
LOSS FROM MAIN OPERATIONS		**(22,205)**	(25,438)
OTHER INCOME / (EXPENSES)			
Murabaha deposit income		**2,331**	3,447
Financial charges, net		**(13,543)**	(14,280)
Share of results of equity accounted investees	9	**12,721**	4,058
Other income	5	**37,225**	20,443
PROFIT / (LOSS) FOR THE PERIOD BEFORE ZAKAT		**16,529**	(11,770)
Zakat	13	**(13,750)**	(7,278)
NET PROFIT / (LOSS) FOR THE PERIOD		**2,779**	(19,048)
OTHER COMPREHENSIVE INCOME			
Items that will be reclassified to interim condensed consolidated statement of profit or loss in subsequent periods:			
Share of other comprehensive income from equity accounted investee	9	**520**	-
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD		**3,299**	(19,048)
NET PROFIT / (LOSS) FOR THE PERIOD ATTRIBUTABLE TO:			
Equity holders of the parent		**3,125**	(17,505)
Non-controlling interests		**(346)**	(1,543)
		2,779	(19,048)
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD ATTRIBUTABLE TO:			
Equity holders of the parent		**3,645**	(17,505)
Non-controlling interests		**(346)**	(1,543)
		3,299	(19,048)
EARNINGS / (LOSS) PER SHARE			
Weighted average number of shares ('000)	6	**850,000**	850,000
Basic and diluted earnings / (loss) per share attributable to equity holders of the Parent Company (in SR per share)	6	**0.003**	(0.02)

The attached notes 1 to 17 form part of these unaudited interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2018

	Note	*31 March 2018 SR'000 (Unaudited)*	*31 December 2017 SR'000 (Audited)*
ASSETS			
NON-CURRENT ASSETS			
Investment properties	7	**5,093,346**	5,085,439
Property and equipment	8	**5,174,847**	5,091,433
Intangible assets		**17,877**	15,198
Investment in equity accounted investees	9	**2,401,932**	2,388,691
Employees' receivable - Home Ownership Scheme		**77,109**	82,031
Other long term receivable		**24,059**	24,059
TOTAL NON-CURRENT ASSETS		**12,789,170**	12,686,851
CURRENT ASSETS			
Current portion of employees' receivable - Home Ownership Scheme		**4,523**	4,779
Unbilled revenue		**504,684**	343,414
Development properties		**1,856,922**	1,769,398
Accounts receivable and other current assets		**740,590**	739,279
Murabaha term deposits with banks		**738,119**	524,110
Cash and cash equivalents		**771,225**	1,227,810
TOTAL CURRENT ASSETS		**4,616,063**	4,608,790
TOTAL ASSETS		**17,405,233**	17,295,641
EQUITY AND LIABILITIES			
EQUITY			
Share capital		**8,500,000**	8,500,000
Statutory reserve		**11,536**	11,536
Accumulated losses		**(498,616)**	(502,261)
Effect of reducing the ownership percentage in a subsidiary		**(86)**	(86)
Equity attributable to the equity holders of the Parent Company		**8,012,834**	8,009,189
Non-controlling interests		**(2,415)**	(2,069)
TOTAL EQUITY		**8,010,419**	8,007,120

The attached notes 1 to 17 form part of these unaudited interim condensed consolidated financial statements.

	Note	***31 March 2018 SR'000 (Unaudited)***	*31 December 2017 SR'000 (Audited)*
NON-CURRENT LIABILITIES			
Long term loans	10	**7,350,000**	7,350,000
Employees' terminal benefits	11	**56,217**	52,758
Unearned financing component on long term receivables		**67,972**	69,898
Unearned interest income - Home Ownership Scheme		**17,820**	18,813
TOTAL NON-CURRENT LIABILITIES		**7,492,009**	7,491,469
CURRENT LIABILITIES			
Accounts payable and accruals	12	**1,085,969**	993,966
Zakat payable	13	**166,836**	153,086
Current portion of long term loans	10	**650,000**	650,000
TOTAL CURRENT LIABILITIES		**1,902,805**	1,797,052
TOTAL LIABILITIES		**9,394,814**	9,288,521
TOTAL EQUITY AND LIABILITIES		**17,405,233**	17,295,641

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the three-month period ended 31 March 2018

	Attributed to equity holders of the parent						
	Share capital SR'000	*Statutory reserve SR'000*	*Accumulated losses SR'000*	*Effect of reducing ownership percentage in a subsidiary SR'000*	*Total SR'000*	*Non-controlling interests SR'000*	*Total equity SR'000*
Balance as at 1 January 2018 (audited)	8,500,000	11,536	(502,261)	(86)	8,009,189	(2,069)	8,007,120
Net profit / (loss) for the period	-	-	3,125	-	3,125	(346)	2,779
Other comprehensive income for the period	-	-	520	-	520	-	520
Total comprehensive income / (loss)for the period	-	-	3,645	-	3,645	(346)	3,299
Balance as at 31 March 2018 (unaudited)	**8,500,000**	**11,536**	**(498,616)**	**(86)**	**8,012,834**	**(2,415)**	**8,010,419**
Balance as at 1 January 2017 (audited)	8,500,000	11,536	(715,183)	(86)	7,796,267	(11,868)	7,784,399
Net loss for the period	-	-	(17,505)	-	(17,505)	(1,543)	(19,048)
Other comprehensive income for the period	-	-	-	-	-	-	-
Total comprehensive loss for the period	-	-	(17,505)	-	(17,505)	(1,543)	(19,048)
Balance as at 31 March 2017 (unaudited)	8,500,000	11,536	(732,688)	(86)	7,778,762	(13,411)	7,765,351

The attached notes 1 to 17 form part of these unaudited interim condensed consolidated financial statements.

Emaar The Economic City (A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

For the three-month period ended 31 March 2018

	Three-month period ended 31 March 2018 SR'000	*Three-month period ended 31 March 2017 SR'000*
OPERATING ACTIVITIES		
Profit / (loss) for the period before zakat	**16,529**	(11,770)
Adjustments to reconcile profit / (loss) for the period before zakat to net cash flows:		
Depreciation	**81,061**	33,630
Impairment loss	**-**	45,313
Amortisation	**3,457**	3,793
Financial charges	**13,543**	14,280
Share of results of equity accounted investees	**(12,721)**	(4,058)
Murabaha deposit income	**(2,331)**	(3,447)
Unwinding of unearned interest income	**(84)**	(519)
Employees' benefit expense – Home Ownership Scheme	**-**	3,853
Provision for employees' terminal benefits	**3,678**	2,232
	103,132	83,307
Working capital adjustments		
Employees' receivable – Home Ownership Scheme	**4,269**	(10,580)
Unbilled revenue	**(161,270)**	-
Development properties	**(87,524)**	(22,395)
Accounts receivable and other current assets	**(1,311)**	35,009
Accounts payable and accruals	**92,003**	(165,711)
Cash used in operations	**(50,701)**	(80,370)
Financial charges paid	**(13,543)**	(7,441)
Employees' terminal benefits paid	**(219)**	(1,172)
Net cash used in operating activities	**(64,463)**	(88,983)
INVESTING ACTIVITIES		
Net movement in murabaha term deposits with banks	**(214,009)**	-
Murabaha deposit income	**2,331**	-
Purchase of property and equipment	**(151,752)**	(148,048)
Net movement in investment properties	**(20,630)**	(24,811)
Purchase of intangible assets	**(6,136)**	(2,304)
Net cash used in investing activities	**(390,196)**	(175,163)
FINANCING ACTIVITIES		
Net movement in long term loans	**-**	500,000
Net movement in unearned finance income	**(1,926)**	6,283
Net cash (used in) / from financing activities	**(1,926)**	506,283
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	**(456,585)**	242,137
Cash and cash equivalents at the beginning of the period	**1,227,810**	1,177,396
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**771,225**	1,419,533

The attached notes 1 to 17 form part of these unaudited interim condensed consolidated financial statements.

1. CORPORATE INFORMATION

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

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)*	
			31 March 2018	*31 December 2017*
Economic Cities Investments Holding Company ("ECIHC")	Saudi Arabia	2010	**99%**	99%
Industrial Zones Development Company Limited ("IZDCL")	Saudi Arabia	2011	**98%**	98%
Economic Cities Real Estate Properties Operation and Management Company ("REOM")	Saudi Arabia	2013	**98%**	98%
Economic Cities Pioneer Real Estate Management Company ("REM")	Saudi Arabia	2013	**98%**	98%
Economic Cities Real Estate Development Company ("RED")	Saudi Arabia	2013	**98%**	98%
Emaar Knowledge Company Limited ("EKC")	Saudi Arabia	2015	**100%**	100%

2. BASIS OF PREPARATION

2.1 Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with the International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") as endorsed in the Kingdom of Saudi Arabia ("KSA") and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRS as endorsed in KSA").

The interim condensed consolidated financial statements do not include all the information and disclosures required in full set of annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2017. In addition, results for the interim period ended 31 March 2018 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2018.

2.2 Basis of measurement

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

2.3 Functional and presentation currency

The Group's interim condensed consolidated financial statements are presented in Saudi Riyal, 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.

2 BASIS OF PREPARATION (continued)

2.4 Significant accounting judgements, estimates and assumptions

The preparation of the Group's interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. 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. The significant judgments made by management in applying the Company's accounting policies and the methods of computation and the key sources of estimation are the same as those applied to the financial statements for the year ended 31 December 2017.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards, interpretations and amendments, effective as of 1 January 2018 and were not early adopted.

New standards, amendments and interpretations applied for the first time in 2018 do not have an impact on the interim condensed consolidated financial statements of the Group. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective as of 1 January 2018.

Summary of significant accounting policies and nature and impact (if any) of new applicable standards, interpretation or amendment, is described below:

Revenue recognition
The Group has elected to early adopt IFRS 15 with effect from 1 January 2017. As a result of early adoption, the Group has applied the following accounting policy for revenue recognition in the preparation of its interim condensed consolidated financial statements:

Revenue from contracts with customers for sale of properties
The Group recognises 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. Recognise revenue when (or as) the entity satisfies a performance obligation.

The Group satisfies a performance obligation and recognises 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

For performance obligations, where one of the above conditions are not met, revenue is recognised 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 recognised, this gives rise to a contract liability.

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

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

Rental income
Rental income from operating leases is recognised 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 recognised on a straight-line basis over the lease term.

Service revenue
Revenue from rendering of services is recognised 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 recognised 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 recognised net of discount on an accrual basis when the services are rendered.

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

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

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 interim condensed consolidated statement of profit or loss and other comprehensive income.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

Recognition and measurement (continued)

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 interim condensed 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.

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 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 condensed 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 capitalised 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 capitalisation.

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

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

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

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

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 realisable 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 realisable 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.

3. SUMMARY OF 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 recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

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

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses are recognised 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 recognised in the interim condensed 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 recognised immediately in the interim condensed 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 analysed 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 16.

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 interim condensed consolidated financial statements.

Amendments to IAS 40 Transfers of Investment Property
The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is an evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Group's interim condensed consolidated financial statements.

4. REVENUE AND COST OF REVENUE

	Three-month period ended 31 March 2018 SR' 000	*Three-month period ended 31 March 2017 SR' 000*
Revenue		
Sale of properties	**221,226**	265,517
Others	**59,545**	52,717
	280,771	318,234
Cost of revenue		
Cost of properties	**80,575**	124,074
Others	**103,531**	78,459
	184,106	202,533

5. OTHER INCOME

The following are the main components of other income:

i) The Group 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 10.5 million (31 March 2017: SR 11.2 million), incurred during the period, has been reimbursed and accounted for as an other income accordingly.

ii) Unwinding of interest income on significant financing component amounting to SR 10.2 million (31 March 2017: SR 7.3 million).

iii) Reversal of accruals no longer required.

6. EARNINGS PER SHARE

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

The earnings per share calculation is given below:

	31 March 2018	*31 March 2017*
Net profit / (loss) attributable to ordinary equity holders of the parent (SR'000)	**3,125**	(17,505)
Weighted average number of ordinary shares ('000)	**850,000**	850,000
Earnings / (loss) per share (Saudi Riyals) – Basic and Diluted	**0.003**	(0.02)

7. INVESTMENT PROPERTIES

Investment properties include Greenfield land and associated costs amounting to SR 2,858 million (31 December 2017: SR 2,858 million), and properties completed and under construction, net of accumulated depreciation and impairment, amounting to SR 2,236 million (31 December 2017: SR 2,228 million).

8. PROPERTY AND EQUIPMENT

Property and equipment mainly includes infrastructure assets, amounting to SR 2,822 million (31 December 2017: SR 1,960 million), and capital work in progress, amounting to SR 1,144 million (31 December 2017: SR 2,062 million), which represents construction costs in respect of the infrastructure and other projects at KAEC.

9. INVESTMENT IN EQUITY ACCOUNTED INVESTEES

	31 March 2018 SR'000	*31 December 2017 SR'000*
Investment in Port Development Company ("PDC") (see note (a) below)	**2,356,142**	2,342,901
Investment in Biyoutat Progressive Company for Real Estate Investment & Development ("Biyoutat") (see note (b) below)	**45,790**	45,790
	2,401,932	2,388,691

a) Investment in PDC – Joint Venture

	31 March 2018 SR'000	*31 December 2017 SR'000*
Investment	**2,487,520**	2,487,520
Purchase of shares from other shareholders	**117,480**	117,480
	2,605,000	2,605,000
Share of results of an equity accounted investee:		
At beginning of the period / year	**25,615**	22,210
Share of profit for the period / year, net of related zakat charge	**12,721**	31,462
Share of other comprehensive income / (loss) for the period / year	**520**	(28,057)
At the end of the period/year	**38,856**	25,615
Elimination of share of profit on sale of land and commission income from an equity accounted investee	**(287,714)**	(287,714)
	2,356,142	2,342,901

9. INVESTMENT IN EQUITY ACCOUNTED INVESTEES (continued)

a) Investment in PDC – Joint Venture (continued)

PDC has used derivative financial instruments (interest rate swaps) to hedge its risks associated with interest rate fluctuations and entered into interest rate swaps (the "Swap Contracts"), with local commercial banks, to hedge future adverse fluctuation in interest rates on its long term loan. PDC designated the Swap Contracts, at its outset, as a cash flow hedge.

At 31 March 2018, the subject Swap Contracts had a negative fair value of SR 55.10 million (31 December 2017: SR 56.11 million), based on the valuation determined by a model and confirmed by PDC's bankers. The Group has recorded an amount of SR 520 thousand within other comprehensive income of the interim condensed consolidated statement of profit or loss and other comprehensive income, being the portion of its share, net of amount already recognized.

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

b) Investment in Biyoutat - Associate

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

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

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

	31 March 2018 SR'000	*31 December 2017 SR'000*
Initial investment	**200**	200
Additional investment	**53,755**	53,755
Elimination of share of profit on sale of land	**(8,165)**	(8,165)
	45,790	45,790

10. LONG TERM LOANS

	31 March 2018 SR'000	*31 December 2017 SR'000*
Ministry of Finance ("MoF") loan (see note (a) below)	**5,000,000**	5,000,000
Others (see note (b) below)	**3,000,000**	3,000,000
	8,000,000	8,000,000
Less: Current portion of long term loans (see note (b) below)	**(650,000)**	(650,000)
Non-current portion of long term loans	**7,350,000**	7,350,000

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

(b) During 2014, the Parent Company signed an Islamic facility agreement with a commercial bank for SR 2,000 million Murabaha liquidity finance facility that carries commission at commercial rates. The outstanding balance of the long term loan, as at 31 March 2018, amounted to SR 1,500 million (31 December 2017: SR 1,500 million). As per the terms of the agreement, the loan is repayable in eight bi-annual installments from 30 June 2018 to 31 December 2021. The installment due within twelve-month, amounting to SR 550 million, is classified as a current liability. The loan is secured against part of KAEC's greenfield land, having a value of SR 3,002 million, held by the Parent Company and an order note for SR 2,500 million.

During 2015, the Parent Company signed an Islamic facility agreement with a commercial bank for SR 1,000 million that carries commission at commercial rates. The outstanding balance of the long term loan, as at 31 March 2018, amounted to SR 500 million (31 December 2017: 500 million). As per the terms of the agreement, the loan is repayable in eight bi-annual installments from 20 October 2019 to 20 April 2023. The 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 loan, as at 31 March 2018, amounted to SR 1,000 million (31 December 2017: SR 1,000 million). As per the terms of the agreements, the loan terms are door to door 8 years with 3 years grace period starting from respective dates of the agreements. In order to comply with the Sharia principles, an additional facility of SR 250 million has been arranged by the bank linked to each of the facility, to permit the rollover (repayment and drawdown) so that the principal amount is available to the Company for the first 3 years of the loan. The installment due within twelve-month, amounting to SR 100 million, is classified as a current liability. The loan facilities are secured against part of KAEC's greenfield land for a total required value of SR 3,000 million, out of which 50% has already been perfected and remaining is in progress. Moreover, the subject loan facilities are further secured by an order note of SR 1,250 million each.

11. 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 period / year ended is as follows:

	31 March 2018 SR'000	*31 December 2017 SR'000*
Balance at the beginning of the period / year	**52,758**	43,205
Included in interim condensed consolidated statement of profit or loss		
Current service cost	**3,216**	12,205
Interest cost	**462**	1,728
	3,678	13,933
Included in interim condensed consolidated statement of other comprehensive income		
Actuarial loss	**-**	46
Benefits paid	**(219)**	(4,426)
Balance at the end of the period / year	**56,217**	52,758

There has been no change in actuarial assumptions for the three-month period ended 31 March 2018. Hence, actuarial gain/loss for the period is nil.

Actuarial assumptions

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

	31 March 2018	*31 December 2017*
Discount rate	**3.5%**	3.5%
Expected rate of future salary increase		
- First three years	**4%**	4%
- Thereafter	**4%**	4%
Mortality rate	**1.17%**	1.17%
Employee turnover rate	**7.50%**	7.50%
Retirement age	**60 years**	60 years

12. ACCOUNTS PAYABLE AND ACCRUALS

	31 March 2018 SR'000	*31 December 2017 SR'000*
Retentions payable	**238,745**	233,111
Contract cost accruals	**205,014**	117,252
Accrued financial charges	**179,092**	120,955
Trade accounts payable	**162,740**	201,740
Accrued expenses and other payables	**123,195**	121,187
Advances from customers	**98,090**	107,900
Amounts to be donated for charitable purposes (see note below)	**50,277**	55,650
Amounts due to related parties (note 14)	**26,927**	34,187
Unearned interest income – Home Ownership Scheme	**1,889**	1,984
	1,085,969	993,966

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. ZAKAT

Charge for the period / year

	31 March 2018 SR'000	*31 December 2017 SR'000*
Provided during the period / year	**13,750**	138,038

The provision for the period / 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 March 2018 SR'000	*31 December 2017 SR'000*
At the beginning of the period / year	**153,086**	29,319
Provided during the period / year	**13,750**	138,038
Adjustment related to prior period / years	-	(7,926)
Payments during the period / year	-	(6,345)
At the end of the period / year	**166,836**	153,086

14. RELATED PARTY DISCLOSURE

Related party	*Nature of transactions*	*Transactions for the three-month period ended*		*Balance as at*	
		31 March 2018 SR' 000	*31 March 2017 SR' 000*	***31 March 2018 SR' 000***	*31 December 2017 SR' 000*
Amounts due from related parties					
Affiliates	Lease rentals, utilities and service charges	**858**	1,014	**2,881**	2,194
	Advance against purchases / services	**-**	315	**-**	-
Key management personnel	Sale of properties, utilities and service charges	**11**	829	**91**	377
Board of directors	Sale of properties	**-**	-	**7,767**	7,329
Total				**10,739**	9,900
Amounts due to related parties					
Affiliates	Expenses incurred on behalf of the Group	**-**	725	**(2,708)**	(2,708)
	Services provided to the Group	**1,370**	6,907	**(305)**	(305)
	Advance against sale of properties and leased units	**-**	-	**(8,899)**	(8,533)
	Purchase of goods	**145**	-	**-**	-
Key management personnel	Remuneration	**6,493**	7,934	**(13,965)**	(18,991)
Board of directors	Remuneration and meeting fees	**1,050**	913	**(1,050)**	(3,650)
Total				**(26,927)**	(34,187)

14. RELATED PARTY DISCLOSURE (continued)

Remuneration of key management personnel of the Group

	31 March 2018 SR' 000	*31 March 2017 SR' 000*
Short-term employee benefits	**4,177**	6,131
Post-employment and non-monetary benefits	**846**	333
Other long-term benefits	**1,470**	1,470
	6,493	7,934

15. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities and commitments, as at 31 March 2018, are described as below:

(a) The Group has outstanding commitments related to future expenditure for the development of KAEC, amounting to SR 1,592 million (31 December 2017: SR 1,149 million).

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

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

(d) 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.

(e) The Company has provided a corporate guarantee to a commercial bank to allow PDC to secure Shariah compliant commodity Murabaha facilities. As at 31 March 2018, 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.

(f) IZDCL, one of the Company's subsidiary, 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.

16. SEGMENTAL INFORMATION

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

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

Segments related Revenue and Profitability

	Residential business SR'000	*Industrial development SR'000*	*Hospitality and leisure SR'000*	*Others SR'000*	*Total SR'000*
Three-month period ended:					
31 March 2018					
Revenue	**156,336**	**93,212**	**13,940**	**17,283**	**280,771**
Results					
Operating profit/ (loss) for the period	**28,007**	**65,110**	**(16,225)**	**(99,097)**	**(22,205)**
Unallocated other income/ (expenses)					**38,734**
Profit before zakat					**16,529**
31 March 2017					
Revenue	189,074	96,315	16,712	16,133	318,234
Results					
Operating profit/ (loss) for the period	31,983	63,815	(16,436)	(104,800)	(25,438)
Unallocated other income/ (expenses)					13,668
Loss before zakat					(11,770)

17. 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 23 Sha'ban 1439H, corresponding to 9 May 2018.