

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

**CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS**

For the three-month period ended
March 31, 2019

with
INDEPENDENT AUDITORS' REPORT

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three-month period ended March 31, 2019

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Independent auditors' report on review of condensed consolidated interim financial statements

To the Shareholders of Emaar The Economic City

Introduction

We have reviewed the accompanying March 31, 2019 condensed consolidated interim financial statements of Emaar The Economic City ("the Company") and its subsidiaries ("the Group"), which comprises:

- the condensed consolidated interim statement of financial position as at March 31, 2019;
- the condensed consolidated interim statement of profit or loss and other comprehensive income for the three-month period ended March 31, 2019;
- the condensed consolidated interim statement of changes in equity for the three-month period ended March 31, 2019;
- the condensed consolidated interim statement of cash flows for the three-month period ended March 31, 2019; and
- the notes to the condensed consolidated interim financial statements.

Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these condensed consolidated interim 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' that is 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 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 March 31, 2019 condensed consolidated interim financial statements of **Emaar The Economic City** and its subsidiaries are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia.

Independent auditors' report on review of condensed consolidated interim financial statements

To the Shareholders of Emaar The Economic City (continued)

Other matter

The condensed consolidated interim financial statements of the Company for the three-month period ended March 31, 2018 were audited and reviewed by another auditor who have expressed an unmodified opinion and conclusions thereon vide their reports dated May 9, 2018.

For KPMG Al Fozan & Partners
Certified Public Accountants



Ebrahim Oboud Baeshen
License No. 382

Jeddah, Ramadan 3, 1440H
Corresponding to May 8, 2019



EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

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

For the three-month period ended March 31, 2019
(Expressed in Saudi Arabian Riyals)

	<u>Notes</u>	2019 ("000")	2018 ("000")
Revenue	5	345,709	280,771
Cost of revenue	5	(207,345)	(188,108)
GROSS PROFIT		138,364	92,663
EXPENSES			
Selling and marketing		(15,147)	(13,488)
General and administrative		(65,317)	(52,409)
Impairment loss		(22,174)	-
Depreciation		(46,398)	(45,348)
Amortisation		(2,632)	(3,457)
LOSS FROM MAIN OPERATIONS		(13,304)	(22,039)
OTHER INCOME / (EXPENSES)			
Murabaha deposit income		351	2,331
Financial charges		(22,675)	(13,707)
Share of results of equity accounted investee	10	4,262	12,721
Other income	6	57,211	37,223
PROFIT FOR THE PERIOD BEFORE ZAKAT		25,845	16,529
Zakat	14	(12,500)	(13,750)
NET PROFIT FOR THE PERIOD		13,345	2,779
OTHER COMPREHENSIVE INCOME			
<i>Items that will be reclassified to condensed consolidated interim statement of profit or loss in subsequent periods:</i>			
Share of other comprehensive (loss) / income from equity accounted investee	10	(9,753)	520
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		3,592	3,299
NET PROFIT FOR THE PERIOD ATTRIBUTABLE TO:			
Equity holders of the Parent Company		13,345	3,125
Non-controlling interests		-	(346)
		13,345	2,779
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:			
Equity holders of the Parent Company		3,592	3,645
Non-controlling interests		-	(346)
		3,592	3,299
Earnings per share:			
Basic and diluted earnings per share attributable to equity holders of the Parent Company (in SR per share)	7	0.016	0.003

The attached notes 1 to 19 form integral part of these condensed consolidated interim financial statements.

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
(Expressed in Saudi Arabian Riyals)

		March 31, 2019 (Unaudited) ("000")	December 31, 2018 (Audited) ("000")
	<u>Notes</u>		
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	8	5,764,473	5,517,751
Right-of-use assets		134,049	-
Investment properties	9	4,989,391	5,132,148
Development properties		1,646,306	1,603,109
Intangible assets		16,287	18,616
Investment in equity accounted investees	10	2,417,074	2,422,565
Employees' receivable - Home Ownership Scheme		116,609	104,497
TOTAL NON-CURRENT ASSETS		15,084,189	14,798,686
CURRENT ASSETS			
Current portion of employees' receivable - Home Ownership Scheme		7,012	6,278
Unbilled revenue		978,478	711,467
Development properties		303,310	411,098
Accounts receivable and other current assets		752,166	761,538
Murabaha term deposits with banks		50,000	50,000
Cash and cash equivalents		476,810	602,632
TOTAL CURRENT ASSETS		2,567,776	2,543,013
TOTAL ASSETS		17,651,965	17,341,699
EQUITY AND LIABILITIES			
EQUITY			
Share capital		8,500,000	8,500,000
Statutory reserve		11,536	11,536
Accumulated losses		(631,111)	(634,077)
TOTAL EQUITY		7,880,425	7,877,459
NON-CURRENT LIABILITIES			
Long-term loans	11	6,976,250	7,051,250
Lease liabilities		96,479	-
Employees' terminal benefits	12	64,273	64,220
Unearned financing component on long-term receivables		84,493	69,493
Unearned interest income - Home Ownership Scheme		30,489	26,871
TOTAL NON-CURRENT LIABILITIES		7,251,984	7,211,834
CURRENT LIABILITIES			
Accounts payable and accruals	13	1,085,993	1,088,063
Accrued Zakat	14	169,343	156,843
Current portion of long-term loans	11	1,232,500	1,007,500
Lease liabilities		31,720	-
TOTAL CURRENT LIABILITIES		2,519,556	2,252,406
TOTAL LIABILITIES		9,771,540	9,464,240
TOTAL EQUITY AND LIABILITIES		17,651,965	17,341,699

The attached notes 1 to 19 form integral part of these condensed consolidated interim financial statements.

EMAAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the three-months period ended March 31, 2019
(Expressed in Saudi Arabian Riyals)

	<i>Attributed to equity holders of the Parent Company</i>					<i>Non-controlling interests ("000")</i>	<i>Total equity ("000")</i>
	<i>Share capital ("000")</i>	<i>Statutory reserve ("000")</i>	<i>Accumulated losses ("000")</i>	<i>Effect of reducing the ownership percentage in a subsidiary ("000")</i>	<i>Total ("000")</i>		
Balance as at December 31, 2018 (Audited)	8,500,000	11,536	(634,077)	-	7,877,459	-	7,877,459
Adjustment on initial application of IFRS 16	-	-	(626)	-	(626)	-	(626)
Adjusted balance as at January 1, 2019	8,500,000	11,536	(634,703)	-	7,876,833	-	7,876,833
Net profit for the period	-	-	13,345	-	13,345	-	13,345
Other comprehensive loss for the period	-	-	(9,753)	-	(9,753)	-	(9,753)
Total comprehensive income for the period	-	-	3,592	-	3,592	-	3,592
Balance as at March 31, 2019 (Unaudited)	8,500,000	11,536	(631,111)	-	7,880,425	-	7,880,425
Balance as at January 1, 2018 (Audited)	8,500,000	11,536	(502,261)	(86)	8,009,189	(2,069)	8,007,120
Net profit for the period	-	-	3,125	-	3,125	(346)	2,779
Other comprehensive income for the period	-	-	520	-	520	-	520
Total comprehensive income for the period	-	-	3,645	-	3,645	(346)	3,299
Balance as at March 31, 2018 (Unaudited)	8,500,000	11,536	(498,616)	(86)	8,012,834	(2,415)	8,010,419

The attached notes 1 to 19 form integral part of these condensed consolidated interim financial statements.

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)
For the three-months period ended March 31, 2019
(Expressed in Saudi Arabian Riyals)

	<u>Notes</u>	2019 ("000")	2018 ("000")
OPERATING ACTIVITIES			
Profit for the period before Zakat		25,845	16,529
Adjustments to reconcile profit for the period before Zakat to net cash flows:			
Depreciation		77,217	81,061
Impairment loss		22,174	-
Amortisation		2,632	3,457
Financial charges		22,675	13,543
Share of results of equity accounted investee	10	(4,262)	(12,721)
Murabaha deposit income		(351)	(2,331)
Unwinding of unearned interest income		(767)	(84)
Employees' benefit expense – Home Ownership Scheme		4,765	-
Provision for employees' terminal benefits	12	6,213	3,678
		<u>156,141</u>	<u>103,132</u>
<i>Working capital adjustments</i>			
Employees' receivable – Home Ownership Scheme		(17,611)	4,269
Unbilled revenue - net		(267,011)	(161,270)
Development properties		61,787	(87,524)
Accounts receivable and other current assets		(18,379)	(1,311)
Accounts payable and accruals		<u>(82,922)</u>	<u>92,003</u>
Cash used in operations		<u>(167,995)</u>	<u>(50,701)</u>
Financial charges paid		(42,109)	(13,543)
Employees' terminal benefits paid	12	<u>(6,160)</u>	<u>(219)</u>
Net cash used in operating activities		<u>(216,264)</u>	<u>(64,463)</u>
INVESTING ACTIVITIES			
Net movement in Murabaha term deposits with banks		-	(214,009)
Murabaha deposit income		51	2,331
Purchase of property and equipment		(69,978)	(151,752)
Net movement in investment properties		(8,711)	(20,630)
Additions made to intangible assets		<u>(303)</u>	<u>(6,136)</u>
Net cash used in investing activities		<u>(78,941)</u>	<u>(390,196)</u>
FINANCING ACTIVITIES			
Net movement in loans and borrowings		150,000	-
Net movement in unearned finance income		<u>19,383</u>	<u>(1,926)</u>
Net cash from / (used in) financing activities		<u>169,383</u>	<u>(1,926)</u>
DECREASE IN CASH AND CASH EQUIVALENTS		<u>(125,822)</u>	<u>(456,585)</u>
Cash and cash equivalents at the beginning of the period		<u>602,632</u>	<u>1,227,810</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		<u>476,810</u>	<u>771,225</u>

The attached notes 1 to 19 form integral part of these condensed consolidated interim financial statements.

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three-month period ended March 31, 2019

(Expressed in Saudi Arabian Riyals)

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 Ramadan 3, 1427H, corresponding to September 21, 2006. The Company obtained its initial Commercial Registration No. 4030164269 on Ramadan 8, 1427H, corresponding to September 26, 2006. The registered office of the Parent Company has been shifted to Rabigh with a revised Commercial Registration No. 4602005884, dated Rabi Awal 6, 1436H, corresponding to December 28, 2014.

The Company is engaged in the development of real estate in the economic or other zones and other development activities including infrastructures, promotion, marketing and sale of land within development areas, transfer/lease of land, development of buildings/housing units, and construction on behalf of other parties. The main activity of the Company is the development of the King Abdullah Economic City ("KAEC").

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

<u>Branch</u>	<u>Commercial Registration Number</u>
Jeddah	4030164269
Riyadh	1010937549
Rabigh	4602006934

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:

<u>Name</u>	<u>Country of incorporation</u>	<u>Year of incorporation</u>	<u>% of capital held (directly or indirectly)</u>	
			<u>March 31, 2019</u>	<u>December 31, 2018</u>
Economic Cities Investments Holding Company ("ECIHC")	Saudi Arabia	2010	100%	100%
Industrial Zones Development Company Limited ("IZDCL")	Saudi Arabia	2011	100%	100%
Economic Cities Real Estate Properties Operation and Management Company ("REOM")	Saudi Arabia	2013	100%	100%
Economic Cities Pioneer Real Estate Management Company ("REM")	Saudi Arabia	2013	100%	100%
Economic Cities Real Estate Development Company ("RED")	Saudi Arabia	2013	100%	100%
Emaar Knowledge Company Limited ("EKC")	Saudi Arabia	2015	100%	100%

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

Refer to note 10 for information related to equity accounted investees.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(continued)

For the three-month period ended March 31, 2019
(Expressed in Saudi Arabian Riyals)

2. BASIS OF PREPARATION

2.1 Statement of compliance

These condensed consolidated interim 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 condensed consolidated interim 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 December 31, 2018. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements. In addition, results for the interim period ended March 31, 2019 are not necessarily indicative of the results that may be expected for the financial year ending December 31, 2019.

2.2 Basis of measurement

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

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

2.3 Functional and presentation currency

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

2.4 Significant accounting judgements, estimates and assumptions

The preparation of the Group's condensed consolidated interim financial statements requires management to make judgements, 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 judgements 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 December 31, 2018, except for the following:

Extension options for leases

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(continued)

For the three-month period ended March 31, 2019
(Expressed in Saudi Arabian Riyals)

2. BASIS OF PREPARATION (continued)

2.4 Significant accounting judgements, estimates and assumptions (continued)

Extension options for leases (continued)

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

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2018, except for the adoption of new standards effective as of January 1, 2019 (see Note 4 (a)).

Leases

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

Right-of-use assets:

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

Lease liabilities:

The lease liability is initially measured at the present value of the lease payments to be made over the lease term, discounted using the Company's incremental borrowing rate (if the interest rate implicit in the lease is not available). Lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, a change in the lease term or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. Any such re-measurement in the lease liability is adjusted against the carrying value of the right-of-use asset or charged to profit or loss if carrying value of the related asset is zero. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for lease payments made.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(continued)

For the three-month period ended March 31, 2019

(Expressed in Saudi Arabian Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Short-term leases and leases of low-value assets

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

4. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS

a. Standards, interpretations and amendments adopted by the Group

IFRS 16 – Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model, similar to accounting for finance leases under IAS 17.

Lessor accounting under IFRS 16 is substantially unchanged under IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

Reconciliation of lease liability

At the date of initial application, the Company recognised right-of-use assets and lease liabilities of SR 133 million. The weighted average rate applied is 4.20%.

The following table represent the lease reconciliation as at January 1, 2019.

	Amount in ("000")
Minimum lease payments	154,471
<i>Recognition exemptions:</i>	
Short-term leases	(507)
Effect of discounting using the incremental borrowing rate	(20,443)
	<u>133,521</u>

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(continued)

For the three-month period ended March 31, 2019
(Expressed in Saudi Arabian Riyals)

4. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS (continued)

a) Standards, interpretations and amendments adopted by the Group (continued)

IFRS 16 – Leases (continued)

Minimum lease payments

The future minimum lease payments together with the present value of minimum lease payments as of March 31, 2019 are as follows:

	March 31, 2019	
	Minimum lease payments	Present value of minimum lease payments
	(Unaudited)	(Unaudited)
	("000")	("000")
Within one year	36,783	31,720
Two to five years	69,504	60,438
More than five years	39,964	36,041
Total minimum lease payments	146,251	128,199
Less: finance charges	(18,052)	-
Present value of minimum lease payments	128,199	128,199

b. Standards, interpretations and amendments issued but not yet effective

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

Standard / Interpretation	Description	Effective from periods beginning on or after the following date
Conceptual Framework	Amendments to References to Conceptual Framework in IFRS Standards	January 1, 2020
IFRS 3	Definition of a Business (amendments to IFRS 3)	January 1, 2020
IAS 1 and IAS 8	Definition of Material (amendments to IAS 1 and IAS 8)	January 1, 2020
IFRS 17	Insurance contracts	January 1, 2021
IFRS 10 and IAS 28	Sale or contribution of assets between investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	Available for optional adoption / effective date deferred indefinitely

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

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(continued)

For the three-month period ended March 31, 2019
(Expressed in Saudi Arabian Riyals)

5. REVENUE AND COST OF REVENUE

	Three-month period ended March 31, 2019 ("000")	Three-month period ended March 31, 2018 ("000")
Revenue		
Sale of properties	266,834	221,226
Others	78,875	59,545
	345,709	280,771
Cost of revenue		
Cost of properties	107,788	80,575
Others	99,557	107,533
	207,345	188,108

6. OTHER INCOME

The following are the main components of other income:

- i) The Group has entered into an agreement ("the Agreement") with two external parties to develop, finance and operate an academic educational institute at KAEC. In accordance with the terms of the Agreement, the net life cycle operating loss of the Institute is to be funded by one of the parties to the Agreement, to the extent of USD 58.5 million. Consequently, the net operating loss of the subject institute, amounting to SR 9.2 million (March 31, 2018: SR 10.5 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 11.06 million (March 31, 2018: SR 10.2 million).
- iii) During the period, the Group has entered into agreements with certain customers for the sale of investment properties resulting in a gain of SR 26.1 million (March 31, 2018: SR 2 million).
- iv) Reversal of accruals no longer required, amounting to SR 1.06 million (March 31, 2018: SR 7.1 million).

7. EARNINGS PER SHARE

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

Diluted EPS is calculated by dividing the net profit attributable to equity holders of the Parent Company (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. Since the Group does not have any convertible shares, therefore, the basic EPS equals the diluted EPS. Moreover, no separate earning per share calculation from continuing operations has been presented since there were no discontinued operations during the period.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(continued)

For the three-month period ended March 31, 2019

(Expressed in Saudi Arabian Riyals)

7. EARNINGS PER SHARE (continued)

The earnings per share calculation is given below:

	Three-month period ended March 31, 2019	Three-month period ended March 31, 2018
Net profit attributable to equity holders of the parent (SR ‘000)	<u>13,345</u>	<u>3,125</u>
Weighted average number of ordinary shares (‘000)	<u>850,000</u>	<u>850,000</u>
Earnings per share (Saudi Arabian Riyals) – Basic and Diluted	<u>0.016</u>	<u>0.003</u>

8. PROPERTY AND EQUIPMENT

Property and equipment mainly includes infrastructure assets, amounting to SR 2,509 million (December 31, 2018: SR 2,539 million), and capital work in progress (“CWIP”), amounting to SR 1,780 million (December 31, 2018: SR 1,759 million), which represents construction costs in respect of the infrastructure and other projects at KAEC. During the three-month period ended March 31, 2019, addition in CWIP amounted to SR 146 million (December 31, 2018: SR 618 million).

9. INVESTMENT PROPERTIES

Investment properties include Greenfield land and associated costs, amounting to SR 2,823 million (December 31, 2018: SR 2,825 million), and properties completed and under construction, net of accumulated depreciation and impairment, amounting to SR 2,166 million (December 31, 2018: SR 2,307 million).

10. INVESTMENT IN EQUITY ACCOUNTED INVESTEEES

	March 31, <u>2019</u> (“000”)	December 31, <u>2018</u> (“000”)
Investment in Ports Development Company (“PDC”) (see note (a) below)	<u>2,371,284</u>	<u>2,376,775</u>
Investment in Biyoutat Progressive Company for Real Estate Investment & Development (“Biyoutat”) (see note (b) below)	<u>45,790</u>	<u>45,790</u>
	<u>2,417,074</u>	<u>2,422,565</u>

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10. INVESTMENT IN EQUITY ACCOUNTED INVESTEEES (continued)

a) Investment in PDC – Joint Venture

	March 31, 2019	December 31, 2018
	(“000”)	(“000”)
Investment	2,487,520	2,487,520
Purchase of shares from other shareholders	117,480	117,480
	<u>2,605,000</u>	<u>2,605,000</u>
Share of results of an equity accounted investee:		
Balance at beginning of the period / year	59,489	25,615
Share of profit for the period / year, net of Zakat charge	4,262	26,130
Share of other comprehensive (loss) / income for the period / year	(9,753)	7,744
	<u>53,998</u>	<u>59,489</u>
Balance at the end of the period / year	53,998	59,489
Elimination of share of profit on sale of land and commission income	(287,714)	(287,714)
Group’s carrying amount of the investment	<u>2,371,284</u>	<u>2,376,775</u>

During the year ended 31 December 2017, PDC has entered into interest rate swaps arrangement (the "Swap Contracts"), with local commercial banks, to hedge future adverse fluctuation in interest rates on its long term loan. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value.

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

At March 31, 2019, the subject Swap Contracts had a negative fair value of SR 60.13 million (December 31, 2018: SR 40.62 million), based on the valuation determined by a model and confirmed by PDC’s bankers. Such fair value is included within non-current liabilities in the statement of financial position of PDC with a corresponding debit to the statement of profit or loss and other comprehensive income. The Group has recorded an amount of SR 9.7 million (December 31, 2018: SR 7.7 million), within other comprehensive (loss) / income of the condensed consolidated interim statement of profit or loss and other comprehensive income, being the portion of its share.

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

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10. INVESTMENT IN EQUITY ACCOUNTED INVESTEEES (continued)

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, Biyoutat, a limited liability company, to build, own and manage a residential compound at KAEC.

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

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

	March 31, 2019 ("000")	December 31, 2018 ("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

11. TERM LOANS

	March 31, 2019 ("000")	December 31, 2018 ("000")
Ministry of Finance ("MoF") loan (see note (a) below)	5,000,000	5,000,000
Others (see note (b) below)	2,908,750	2,908,750
	7,908,750	7,908,750
Current portion of long-term loans (see note (b) below)	(932,500)	(857,500)
Non-current portion of long term loans	6,976,250	7,051,250
Short-term loans (see note (c) below)	300,000	150,000
Current portion of long term loans (see note (b) below)	932,500	857,500
	1,232,500	1,007,500

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11. TERM LOANS (continued)

- (a) During 2011, the Parent Company received a loan of SR 5,000 million from the Ministry of Finance ("MoF") for the development of KAEC. The loan is secured against pledge of 24.7 million sqm of the Greenfield land and carries annual commission at commercial rates and was originally repayable, with a three years grace period, in seven annual installments commencing from June 1, 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 March 31, 2019, amounted to SR 1,508.75 million (December 31, 2018: SR 1,508.75 million). As per the terms of the agreement, the loan is repayable in eight bi-annual installments from June 30, 2018 to December 31, 2021. The installment due within twelve-month, amounting to SR 532.5 million is classified as a current liability. The loan is secured against part of KAEC's greenfield land, having a value of SR 3,002 million, held by the Parent Company and an order note for SR 2,500 million.

During 2015, the Parent Company signed an Islamic facility agreement with a commercial bank for SR 1,000 million that carries commission at commercial rates. The outstanding balance of the long term loan, as at March 31, 2019, amounted to SR 500 million (December 31, 2018: SR 500 million). As per the terms of the agreement, the loan is repayable in eight bi-annual installments from October 20, 2019 to April 20, 2023. The installment due within twelve-months, amounting to SR 125 million, is classified as a current liability. The loan is secured against part of KAEC's greenfield land, held by the Parent Company, for a total required value of SR 1,500 million, out of which 56% has already been perfected and remaining is in progress. The subject loan is further secured by an order note of SR 1,200 million.

During 2014 and 2015, the Company signed two facility agreements with a commercial bank for SR 1,000 million each carrying commission at prevailing commercial rates. The outstanding balance of the loan, as at March 31, 2019, amounted to SR 900 million (December 31, 2018: SR 900 million). As per the terms of the agreements, the loan terms are door to door 8 years with 3 years grace period starting from respective dates of the agreements. In order to comply with the Sharia principles, an additional facility of SR 250 million has been arranged by the bank linked to each of the facility, to permit the rollover (repayment and drawdown) so that the principal amount is available to the Company for the first 3 years of the loan. The installment due within twelve-months, amounting to SR 275 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.

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11. TERM LOANS (continued)

- (c) During 2018, the Company has availed a short-term facility from a commercial bank, amounting to SR 250 million, carrying commission at prevailing commercial rates, in order to finance the working capital requirements. The subject loan facility was reduced to SR 200 million during current period and is secured by a promissory note of SR 200 million. The outstanding balance of the facility, as at March 31, 2019, amounted to SR 150 million (December 31, 2018: SR 150 million).

Moreover, from an existing short-term facility of SR 500 million, the Company has availed SR 150 million during current period in order to finance the working capital requirements. The subject loan facility carries commission at prevailing commercial rates and is secured by the order note of SR 2,500 million (refer (b) above). The outstanding balance of the facility, as at March 31, 2019, amounted to SR 150 million.

12. 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:

	March 31, 2019 ("000")	December 31, 2018 ("000")
Balance at the beginning of the period / year	64,220	52,758
<i>Included in condensed consolidated interim statement of profit or loss</i>		
Current service cost	5,476	13,257
Interest cost	737	1,856
	6,213	15,113
<i>Included in condensed consolidated interim statement of other comprehensive income</i>		
Actuarial gain	-	(183)
Benefits paid	(6,160)	(3,468)
Balance at the end of the period / year	64,273	64,220

There has been no change in actuarial assumptions for the three-months period ended March 31, 2019. Hence, actuarial gain/loss for the period is nil.

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12. EMPLOYEES' TERMINAL BENEFITS (continued)

Actuarial assumptions

Following were the principal actuarial assumptions applied at the reporting date:

	March 31, 2019	December 31, 2018
Discount rate	4.38%	4.38%
Expected rate of future salary increase		
- First three years	5%	5%
- Thereafter	5%	5%
Mortality rate	1.17%	1.17%
Employee turnover rate	7.50%	7.50%
Retirement age	60 years	60 years

13. ACCOUNTS PAYABLE AND ACCRUALS

	March 31, 2019 ("000")	December 31, 2018 ("000")
Trade accounts payable	204,968	312,714
Retentions payable	211,234	200,484
Amounts due to related parties (note 15)	12,271	23,053
Amounts to be donated for charitable purposes (see note below)	50,009	49,847
Advances from customers	126,284	122,734
Accrued expenses and other payables	133,778	103,625
Contract cost accruals	142,444	117,620
Accrued financial charges	201,808	155,170
Unearned interest income - Home Ownership Scheme	3,197	2,816
	1,085,993	1,088,063

The Board of Directors decided in 2006 to donate the amount earned on the founding shareholders' share capital contribution (before initial public offering) placed in fixed deposits maintained with a bank before placing funds under an Islamic deposit scheme. Commission earned on this deposit is added to the amount to be donated for charitable purposes.

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14. ZAKAT

Charge for the period / year

	March 31, 2019 ("000")	December 31, 2018 ("000")
Charge for the period / year	<u>12,500</u>	<u>66,000</u>

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:

	March 31, 2019 ("000")	December 31, 2018 ("000")
At the beginning of the period / year	156,843	153,086
Charge for the period / year	12,500	66,000
Payments during the period / year	<u>-</u>	<u>(62,243)</u>
At the end of the period / year	<u>169,343</u>	<u>156,843</u>

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15. RELATED PARTY DISCLOSURE

Related parties represent major shareholders, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Transactions with related parties were carried out in the normal course of business on terms agreed between the parties. In addition to note 10, following are the significant related party transactions during the year and the related balances:

Related party	Nature of transactions	Amount of transactions for the three-month period ended			Balance as at	
		March 31, 2019	March 31, 2018	March 31, 2019	March 31, 2018	December 31, 2018
		("000")	("000")	("000")	("000")	("000")
Amounts due from related parties						
Affiliates						
	Lease rentals, utilities and service charges	1,220	858	6,156	10,182	-
	Sale of properties	2,566	-	-	-	-
Key management personnel						
	Sale of properties, utilities and service charges	54	11	211	203	-
Board of directors						
	Sale of properties, utilities and service charges	31	-	225	4,668	-
Total				6,592	15,053	
Amounts due to related parties						
Affiliates						
	Expenses incurred on behalf of the Group	-	-	(2,708)	(2,708)	(2,708)
	Services provided to the Group	103	1,370	(305)	(305)	(305)
	Advance against sale of properties and leased units	-	-	(7,975)	(7,965)	(7,965)
	Purchase of goods	10	145	-	-	-
	Remuneration	5,037	6,493	-	(7,875)	(7,875)
	Advance against services	-	-	(12)	-	-
Key management personnel						
	Remuneration and meeting fees	1,050	1,050	(1,050)	(4,200)	(4,200)
	Advance against services	-	-	(221)	-	-
Board of directors						
Total				(12,271)	(23,053)	

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15. RELATED PARTY DISCLOSURE (continued)

Compensation of key management personnel of the Group

	March 31, 2019 ("000")	March 31, 2018 ("000")
Short-term employee benefits	2,984	4,177
Non-monetary benefits	90	53
Post-employment benefits	552	793
Termination benefits	1,411	-
Other long-term benefits	-	1,470
	<u>5,037</u>	<u>6,493</u>

16. CONTINGENT LIABILITIES AND COMMITMENTS

In addition to disclosures set out in note 11, contingent liabilities and commitments, as at March 31, 2019, are described as below:

- (a) The Group has outstanding commitments related to future expenditure for the development of KAEC in coming few years, amounting to SR 1,172 million (December 31, 2018: SR 1,271 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 condensed consolidated interim financial statements.
- (c) IZDCL has finalised its Zakat status up to the year 2012. The GAZT issued the Zakat assessment for the years 2013 to 2015 and claimed Zakat differences of SR 4.6 million. IZDCL objected against the GAZT assessment. Furthermore, IZDCL filed the Zakat returns up to the year 2017 and obtained the Zakat certificates.
- (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, limited to SR 112.5 million plus any Murabaha profits due to be paid by the PDC, to allow PDC to secure Shariah compliant commodity Murabaha facilities, having a maximum limit of SR 180 million. During the year ended 31 December 2017, PDC has availed the subject Murabaha facility, amounting to SR 150 million, to finance its working capital requirements. In this connection, the Company has also provided promissory notes, amounting to SR 75 million, plus any Murabaha profits due to be paid by the PDC. The subject facility has been enhanced to SR 180 million during 2018.

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17. 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

	<i><u>Residential business</u></i> (“000”)	<i><u>Industrial development</u></i> (“000”)	<i><u>Hospitality and leisure</u></i> (“000”)	<i><u>Others</u></i> (“000”)	<i><u>Total</u></i> (“000”)
Three-month period ended:					
March 31, 2019					
Revenue	<u>235,793</u>	<u>68,396</u>	<u>23,707</u>	<u>17,813</u>	<u>345,709</u>
Results					
Operating profit / (loss) for the period	<u>93,665</u>	<u>49,279</u>	<u>(20,101)</u>	<u>(136,147)</u>	<u>(13,304)</u>
Unallocated other income / (expenses)					<u>39,149</u>
Profit before Zakat					<u>25,845</u>
March 31, 2018					
Revenue	<u>156,336</u>	<u>93,212</u>	<u>13,940</u>	<u>17,283</u>	<u>280,771</u>
Results					
Operating profit / (loss) for the period	<u>28,007</u>	<u>65,110</u>	<u>(16,225)</u>	<u>(98,931)</u>	<u>(22,039)</u>
Unallocated other income / (expenses)					<u>38,568</u>
Profit before Zakat					<u>16,529</u>

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18. FAIR VALUE OF ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

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

When measuring the fair value of an asset or liability, the Group uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

As at March 31, 2019 and December 31, 2018, the fair values of the Group's financial instruments are estimated to approximate their carrying values and are classified under level 2 of the fair value hierarchy. No significant inputs were applied in the valuation of trade receivables as at March 31, 2019 and December 31, 2018.

During the period ended March 31, 2019, there were no movements between the levels.

19. DATE OF APPROVAL AND AUTHORISATION FOR ISSUE

The condensed consolidated interim financial statements were approved and authorized for issue by the Company's Board of Directors on Ramadan 3, 1440H, corresponding to May 8, 2019.