

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

**CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS**

For the three-month and nine-month periods ended September 30, 2019
with

INDEPENDENT AUDITORS' REPORT

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three-month and nine-month periods ended September 30, 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 September 30, 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 profit or loss and other comprehensive income for the three-month and nine-month periods ended September 30, 2019;
- the condensed consolidated interim statement of financial position as at September 30, 2019;
- the condensed consolidated interim statement of changes in equity for the nine-month period ended September 30, 2019;
- the condensed consolidated interim statement of cash flows for the nine-month period ended September 30, 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 September 30, 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.

For KPMG Al Fozan & Partners
Certified Public Accountants

Ebrahim Oboud Baeshen
License No. 382



Jeddah, Rabi Al Awal 9, 1441H
Corresponding to November 6, 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 and nine-month periods ended September 30, 2019
(Expressed in Saudi Arabian Riyals)

		Three-months period ended September 30, 2019 ("000")	Three-months period ended September 30, 2018 ("000")	Nine-months period ended September 30, 2019 ("000")	Nine-months period ended September 30, 2018 ("000")
	Notes				
Revenue	5	163,336	111,853	718,736	636,674
Cost of revenue	5	(151,425)	(129,626)	(497,136)	(460,753)
GROSS PROFIT / (LOSS)		11,911	(17,773)	221,600	175,921
EXPENSES					
Selling and marketing		(20,885)	(21,583)	(55,909)	(51,361)
General and administrative		(66,002)	(60,189)	(204,006)	(185,630)
Impairment loss		(7,725)	(6,536)	(58,697)	(12,199)
Depreciation		(46,097)	(40,773)	(138,835)	(138,986)
Amortisation		(2,693)	(2,868)	(7,969)	(9,308)
LOSS FROM MAIN OPERATIONS		(131,491)	(149,722)	(243,816)	(221,563)
OTHER INCOME / (EXPENSES)					
Murabaha deposit income		1,314	2,186	1,740	6,868
Financial charges, net		(83,432)	(16,318)	(145,812)	(44,544)
Share of results of equity accounted investee	10	1,009	1,653	8,127	21,652
Other income	6	23,227	25,923	114,014	82,776
LOSS FOR THE PERIOD BEFORE ZAKAT		(189,373)	(136,278)	(265,747)	(154,811)
Zakat	15	(12,500)	(13,750)	(37,500)	(41,250)
NET LOSS FOR THE PERIOD		(201,873)	(150,028)	(303,247)	(196,061)
OTHER COMPREHENSIVE (LOSS) / 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	(8,096)	15,206	(28,048)	19,210
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(209,969)	(134,822)	(331,295)	(176,851)
NET LOSS FOR THE PERIOD					
ATTRIBUTABLE TO:					
Equity holders of the Parent Company		(201,873)	(149,095)	(303,247)	(193,558)
Non-controlling interests		-	(933)	-	(2,503)
		(201,873)	(150,028)	(303,247)	(196,061)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO:					
Equity holders of the Parent Company		(209,969)	(133,889)	(331,295)	(174,348)
Non-controlling interests		-	(933)	-	(2,503)
		(209,969)	(134,822)	(331,295)	(176,851)
Loss per share:					
Basic and diluted loss per share attributable to equity holders of the Parent Company (in SR per share)	7	(0.24)	(0.18)	(0.36)	(0.23)

The attached notes 1 to 20 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

As at September 30, 2019

(Expressed in Saudi Arabian Riyals)

	<u>Notes</u>	September 30, 2019 (Unaudited) ("000")	December 31, 2018 (Audited) ("000")
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	8	5,913,431	5,517,751
Right-of-use assets		121,634	-
Investment properties	9	5,001,620	5,132,148
Unbilled revenue		672,999	209,123
Development properties		1,482,575	1,603,109
Intangible assets		13,469	18,616
Investment in equity accounted investees	10	2,402,644	2,422,565
Employees' receivable - Home Ownership Scheme		115,236	104,497
TOTAL NON-CURRENT ASSETS		15,723,608	15,007,809
CURRENT ASSETS			
Current portion of employees' receivable - Home Ownership Scheme		7,298	6,278
Unbilled revenue		353,441	502,344
Development properties		417,652	411,098
Accounts receivable and other current assets		648,403	761,538
Murabaha term deposits with banks		150,000	50,000
Cash and cash equivalents		813,790	602,632
TOTAL CURRENT ASSETS		2,390,584	2,333,890
TOTAL ASSETS		18,114,192	17,341,699
EQUITY AND LIABILITIES			
EQUITY			
Share capital		8,500,000	8,500,000
Statutory reserve		11,536	11,536
Accumulated losses		(965,998)	(634,077)
TOTAL EQUITY		7,545,538	7,877,459
NON-CURRENT LIABILITIES			
Long-term loans	11	6,910,000	7,051,250
Lease liabilities		86,109	-
Employees' terminal benefits	13	67,378	64,220
Unearned financing component on long-term receivables		94,029	69,493
Unearned interest income - Home Ownership Scheme		31,452	26,871
TOTAL NON-CURRENT LIABILITIES		7,188,968	7,211,834
CURRENT LIABILITIES			
Accounts payable and accruals	14	1,311,637	1,088,063
Accrued Zakat	15	131,813	156,843
Current portion of long-term loans	11	1,582,500	857,500
Short-term loans	12	320,000	150,000
Lease liabilities		33,736	-
TOTAL CURRENT LIABILITIES		3,379,686	2,252,406
TOTAL LIABILITIES		10,568,654	9,464,240
TOTAL EQUITY AND LIABILITIES		18,114,192	17,341,699

The attached notes 1 to 20 form integral part of these condensed consolidated interim financial statements.

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the nine-month period ended September 30, 2019

(Expressed in Saudi Arabian Riyals)

	Attributed to equity holders of the Parent Company					
	Share capital ("000")	Statutory reserve ("000")	Accumulated losses ("000")	Effect of reducing the ownership percentage in a subsidiary ("000")	Non-controlling interests ("000")	Total equity ("000")
Balance as at December 31, 2018 (Audited)	8,500,000	11,536	(634,077)	-	-	7,877,459
Adjustment on initial application of IFRS 16	-	-	(626)	-	-	(626)
Adjusted balance as at January 1, 2019	8,500,000	11,536	(634,703)	-	-	7,876,833
Net loss for the period	-	-	(303,247)	-	-	(303,247)
Other comprehensive loss for the period	-	-	(28,048)	-	-	(28,048)
Total comprehensive loss for the period	-	-	(331,295)	-	-	(331,295)
Balance as at September 30, 2019 (Unaudited)	8,500,000	11,536	(965,998)	-	-	7,545,538
Balance as at January 1, 2018 (Audited)	8,500,000	11,536	(502,261)	(86)	(2,069)	8,007,120
Net loss for the period	-	-	(193,558)	-	(2,503)	(196,061)
Other comprehensive income for the period	-	-	19,210	-	-	19,210
Total comprehensive loss for the period	-	-	(174,348)	-	(2,503)	(176,851)
Balance as at September 30, 2018 (Unaudited)	8,500,000	11,536	(676,609)	(86)	(4,572)	7,830,269

The attached notes 1 to 20 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 nine-month periods ended September 30, 2019

(Expressed in Saudi Arabian Riyals)

	<u>Notes</u>	<u>2019</u> (“000”)	<u>2018</u> (“000”)
OPERATING ACTIVITIES			
Loss for the period before Zakat		(265,747)	(154,811)
<i>Adjustments to reconcile loss for the period before Zakat to net cash flows:</i>			
Depreciation		246,456	212,866
Impairment loss		58,697	12,199
Amortisation		7,969	9,308
Financial charges		145,812	44,544
Share of results of equity accounted investee	10	(8,127)	(21,652)
Murabaha deposit income		(1,740)	(6,868)
Unwinding of unearned interest income		(2,070)	(812)
Employees’ benefit expense – Home Ownership Scheme		7,187	2,800
Provision for employees’ terminal benefits	13	13,104	11,027
		<u>201,541</u>	<u>108,601</u>
<i>Working capital adjustments</i>			
Employees’ receivable – Home Ownership Scheme		(18,946)	(3,843)
Unbilled revenue - net		(314,973)	(122,057)
Development properties		113,387	(243,912)
Accounts receivable and other current assets		55,606	(12,886)
Other long term receivable		-	24,059
Accounts payable and accruals		<u>113,777</u>	<u>(39,638)</u>
Cash from / (used in) operations		150,392	(289,676)
Zakat paid	15	(62,530)	(62,243)
Financial charges paid		(180,355)	(254,120)
Employees’ terminal benefits paid	13	(9,946)	(2,964)
Net cash used in operating activities		<u>(102,439)</u>	<u>(609,003)</u>
INVESTING ACTIVITIES			
Investment in Murabaha term deposits with banks		(249,980)	(59,011)
Proceeds from Murabaha term deposits		150,689	454,817
Additions to property and equipment		(264,736)	(279,878)
Additions to investment properties		(104,490)	(74,071)
Additions to intangible assets		(2,823)	(7,918)
Net cash (used in) / from investing activities		<u>(471,340)</u>	<u>33,939</u>
FINANCING ACTIVITIES			
Proceeds from loans		1,620,000	500,000
Repayment of loans		(866,250)	(225,000)
Movement in unearned finance income		31,187	(7,355)
Net cash from financing activities		<u>784,937</u>	<u>267,645</u>
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		<u>211,158</u>	<u>(307,419)</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><u>813,790</u></u>	<u><u>920,391</u></u>

The attached notes 1 to 20 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 and nine-month periods ended September 30, 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>September 30, 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 and nine-month periods ended September 30, 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 September 30, 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 and nine-month periods ended September 30, 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).

Going concern

As at September 30, 2019, the Group's current liabilities exceed the current assets by SR 989 million, primarily due to the long-term loan's current portion, falling due in next twelve months. The Group has additional approved facilities (refer note 11) and currently in the process to withdraw appropriate required amounts in the first half of 2020. Furthermore, the Group has started discussions with certain lenders for rescheduling of respective borrowings.

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

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 (refer 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(continued)

For the three-month and nine-month periods ended September 30, 2019
(Expressed in Saudi Arabian Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

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.

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').

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(continued)

For the three-month and nine-month periods ended September 30, 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)

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 incremental borrowing rate applied is 4.20%.

The following table represents 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>

Minimum lease payments

The future minimum lease payments together with the present value of minimum lease payments as of September 30, 2019 are as follows:

	September 30, 2019	
	Minimum lease payments (Unaudited) ("000")	Present value of minimum lease payments (Unaudited) ("000")
Within one year	38,111	33,736
From two to five years	60,362	50,067
More than five years	39,964	36,042
Total minimum lease payments	<u>138,437</u>	<u>119,845</u>
Less: finance charges	(18,592)	-
Present value of minimum lease payments	<u>119,845</u>	<u>119,845</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(continued)

For the three-month and nine-month periods ended September 30, 2019
(Expressed in Saudi Arabian Riyals)

4. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS (continued)

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.

<i>Standard / Interpretation</i>	<i>Description</i>	<i>Effective from periods beginning on or after the following date</i>
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.

5. REVENUE AND COST OF REVENUE

	Three-month period ended September 30, 2019 (“000”)	Three-month period ended September 30, 2018 (“000”)	Nine-month period ended September 30, 2019 (“000”)	Nine-month period ended September 30, 2018 (“000”)
Revenue				
Sale of properties	92,169	52,734	506,636	461,075
Others	71,167	59,119	212,100	175,599
	163,336	111,853	718,736	636,674
Cost of revenue				
Cost of properties	48,317	35,241	190,705	176,704
Others	103,108	94,385	306,431	284,049
	151,425	129,626	497,136	460,753

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(continued)

For the three-month and nine-month periods ended September 30, 2019
(Expressed in Saudi Arabian Riyals)

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 39.2 million (September 30, 2018: SR 34.7 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 28.9 million (September 30, 2018: SR 27.4 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 34.1 million.
- iv) Reversal of accruals no longer required, amounting to SR 1.1 million (September 30, 2018: SR 7.1 million).

7. LOSS PER SHARE

Basic loss per share is calculated by dividing the net loss for the period attributable to equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the period.

Diluted loss per share is calculated by dividing the net loss 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 loss per share equals the diluted loss per share. Moreover, no separate loss per share calculation from continuing operations has been presented since there were no discontinued operations during the period.

The loss per share calculation is given below:

	Nine-month period ended September 30, 2019	Nine-month period ended September 30, 2018
Net loss attributable to equity holders of the Parent Company (SR '000)	<u>(303,247)</u>	<u>(193,558)</u>
Weighted average number of ordinary shares ('000)	<u>850,000</u>	<u>850,000</u>
Loss per share (Saudi Arabian Riyals) – Basic and Diluted	<u>(0.36)</u>	<u>(0.23)</u>

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8. PROPERTY AND EQUIPMENT

Property and equipment mainly includes infrastructure assets, amounting to SR 2,434 million (December 31, 2018: SR 2,539 million), and capital work in progress ("CWIP"), amounting to SR 2,036 million (December 31, 2018: SR 1,759 million), which represents construction costs in respect of the infrastructure and other projects at KAEC. During the nine-month period ended September 30, 2019, additions in CWIP amounted to SR 423.9 million (December 31, 2018: SR 618 million).

9. INVESTMENT PROPERTIES

Investment properties include Greenfield land and associated costs, amounting to SR 2,821 million (December 31, 2018: SR 2,825 million), and properties completed and under construction, net of accumulated depreciation and impairment, amounting to SR 2,181 million (December 31, 2018: SR 2,307 million).

10. INVESTMENT IN EQUITY ACCOUNTED INVESTEEES

	September 30, 2019 ("000")	December 31, 2018 ("000")
Investment in Ports Development Company ("PDC") (see note (a) below)	2,356,854	2,376,775
Investment in Biyoutat Progressive Company for Real Estate Investment & Development ("Biyoutat") (see note (b) below)	45,790	45,790
	2,402,644	2,422,565

a) Investment in PDC – Joint Venture

	September 30, 2019 ("000")	December 31, 2018 ("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:		
Balance at beginning of the period / year	59,489	25,615
Share of profit for the period / year, net of Zakat charge	8,127	26,130
Share of other comprehensive (loss) / income for the period / year	(28,048)	7,744
	39,568	59,489
Balance at the end of the period / year	39,568	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	2,356,854	2,376,775

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10. INVESTMENT IN EQUITY ACCOUNTED INVESTEEES (continued)

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 September 30, 2019, the subject Swap Contracts had a negative fair value of SR 96.7 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 28 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.

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:

	September 30, 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

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11. LONG-TERM LOANS

	September 30, 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)	3,492,500	2,908,750
	8,492,500	7,908,750
Current portion of long-term loans (see note (a) and (b) below)	(1,582,500)	(857,500)
Non-current portion of long-term loans	6,910,000	7,051,250

- (a) During 2011, the Parent Company received a loan of SR 5,000 million from the Ministry of Finance ("MoF") for the development of KAEC. The loan is secured against pledge of 24.7 million sqm of the Greenfield land and carries annual commission at commercial rates and was originally repayable, with a three years grace period, in seven annual installments commencing from 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 September 30, 2019, amounted to SR 1,242.5 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 installments due within twelve-months, amounting to SR 532.5 million are classified as a current liability. The loan is secured against part of KAEC's greenfield land, having a value of SR 3,002 million, held by the Parent Company and an order note for SR 2,500 million.

During 2015, the Parent Company signed an Islamic facility agreement with a commercial bank for SR 1,000 million that carries commission at commercial rates. The outstanding balance of the long-term loan, as at September 30, 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 installments due within twelve-months, amounting to SR 125 million, are classified as a current liability. The loan is secured against part of KAEC's greenfield land, held by the Parent Company, for a total required value of SR 1,500 million, out of which 92% has already been perfected and remaining is in progress. The subject loan is further secured by an order note of SR 1,200 million.

During 2014 and 2015, the Company signed two facility agreements with a commercial bank for SR 1,000 million each carrying commission at prevailing commercial rates. The outstanding balance of the loan, as at September 30, 2019, amounted to SR 1,750 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 installments due within twelve-months, amounting to SR 225 million, are 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. Moreover, the subject loan facilities are further secured by order notes of SR 2,250 million.

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12. SHORT-TERM LOANS

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 September 30, 2019, amounted to SR 170 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 note 11(b)). The outstanding balance of the facility, as at September 30, 2019, amounted to SR 150 million.

13. 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:

	September 30, 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	10,831	13,257
Interest cost	2,273	1,856
	13,104	15,113
<i>Included in condensed consolidated interim statement of other comprehensive income:</i>		
Actuarial gain	-	(183)
Benefits paid	(9,946)	(3,468)
Balance at the end of the period / year	67,378	64,220

There has been no change in actuarial assumptions for the nine-months period ended September 30, 2019. Hence, actuarial gain/loss for the period is nil.

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13. EMPLOYEES' TERMINAL BENEFITS (continued)

Actuarial assumptions

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

	September 30, 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

14. ACCOUNTS PAYABLE AND ACCRUALS

	September 30, 2019 ("000")	December 31, 2018 ("000")
Trade accounts payable	387,536	312,714
Retentions payable	222,965	200,484
Amounts due to related parties (note 16)	14,671	23,053
Amounts to be donated for charitable purposes (see note below)	45,467	49,847
Advances from customers	66,245	92,490
Accrued expenses and other payables	147,196	103,625
Contract cost accruals	131,991	117,620
Accrued financial charges	263,175	155,170
Unearned income	29,040	30,244
Unearned interest income - Home Ownership Scheme	3,351	2,816
	1,311,637	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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15. ZAKAT

Charge for the period / year

	September 30, 2019 ("000")	December 31, 2018 ("000")
Charge for the period / year	<u>37,500</u>	<u>66,000</u>

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

Movement in provision

The movement in the Zakat provision is as follows:

	September 30, 2019 ("000")	December 31, 2018 ("000")
At the beginning of the period / year	156,843	153,086
Charge for the period / year	37,500	66,000
Payments during the period / year	<u>(62,530)</u>	<u>(62,243)</u>
At the end of the period / year	<u>131,813</u>	<u>156,843</u>

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16. 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 equivalent to those that prevail in arm's length transactions. In addition to note 10, following are the significant related party transactions during the period and the related balances:

Related party	Nature of transactions	Amount of transactions for the nine-month period ended		Balance as at	
		September 30, 2019 ("000")	September 30, 2018 ("000")	September 30, 2019 ("000")	December 31, 2018 ("000")
Amounts due from related parties					
Affiliates	Lease rentals, utilities and service charges	6,561	4,507	8,173	10,182
	Sale of properties	4,146	12,649	1,570	-
Key management personnel	Utilities and service charges	219	146	100	203
Board of directors	Sale of properties, utilities and service charges	95	431	234	4,668
Total				10,077	15,053
Amounts due to related parties					
Affiliates	Expenses incurred on behalf of the Group	-	-	(2,708)	(2,708)
	Services provided to the Group	309	4,090	(455)	(305)
	Advance against sale of properties and leased units	-	-	(8,310)	(7,965)
	Purchase of goods	20	170	-	-
Key management personnel	Remuneration	12,435	16,574	-	(7,875)
	Advance against services	-	-	(48)	-
Board of directors	Remuneration and meeting fees	3,150	3,150	(3,150)	(4,200)
Total				(14,671)	(23,053)

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16. RELATED PARTY DISCLOSURE (continued)

Compensation of key management personnel of the Group

	September 30, <u>2019</u> (“000”)	September 30, <u>2018</u> (“000”)
Short-term employee benefits	9,711	12,623
Non-monetary benefits	271	314
Post-employment benefits	1,042	1,631
Termination benefits	1,411	-
Other long-term benefits	-	2,006
	<u>12,435</u>	<u>16,574</u>

17. CONTINGENT LIABILITIES AND COMMITMENTS

In addition to disclosures set out in note 11 and 12, contingent liabilities and commitments, as at September 30, 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 887 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 and has also filed an appeal.
- (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 availed the subject Murabaha facility, amounting to SR 150 million, to finance its working capital requirements. The subject facility has been enhanced to SR 180 million during 2018. In this connection, the Company had also provided promissory notes, amounting to SR 75 million, which has been enhanced to SR 90 million subsequent to period end, plus any Murabaha profits due to be paid by the PDC.

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18. 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 condensed consolidated interim 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”)
<i>Nine-month period ended:</i>					
September 30, 2019					
Revenue	<u>443,222</u>	<u>168,819</u>	<u>59,059</u>	<u>47,636</u>	<u>718,736</u>
Results					
Operating profit / (loss) for the period	<u>129,194</u>	<u>118,846</u>	<u>(79,633)</u>	<u>(412,223)</u>	<u>(243,816)</u>
Unallocated other income / (expenses)					<u>(21,931)</u>
Loss before Zakat					<u>(265,747)</u>
September 30, 2018					
Revenue	<u>360,492</u>	<u>201,669</u>	<u>37,603</u>	<u>36,910</u>	<u>636,674</u>
Results					
Operating profit / (loss) for the period	<u>61,271</u>	<u>129,800</u>	<u>(61,083)</u>	<u>(351,551)</u>	<u>(221,563)</u>
Unallocated other income / (expenses)					<u>66,752</u>
Loss before Zakat					<u>(154,811)</u>

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19. FAIR VALUE OF ASSETS AND LIABILITIES

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

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

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

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

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

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

As at September 30, 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 September 30, 2019 and December 31, 2018.

During the nine-months period ended September 30, 2019, there were no movements between the levels.

20. 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 Rabi Al Awal 9, 1441H, corresponding to November 6, 2019.