KING ABDULLAH ECONOMIC CITY

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EMAAR, THE ECONOMIC CITY ANNUAL REPORT 2017

KING ABDULLAH ECONOMIC CITY

ANNUAL REPORT 2017

Contents

WE ARE CREATING A NEW WORLD CITY TO BENEFIT CITIZENS, BUSINESSES, AND THE ENTIRE KINGDOM OF SAUDI ARABIA. AS WELL AS A UNIQUE ENVIRONMENT FOR PEOPLE'S FUTURES, KING ABDULLAH ECONOMIC CITY (KAEC) IS THE REGION'S FASTEST GROWING MANUFACTURING AND LOGISTICS HUB, CREATING SOCIO-ECONOMIC VALUE FOR THE COUNTRY, AS WELL AS MILLIONS OF NEW CAREER OPPORTUNITIES.

THE MASTER DEVELOPER OF KAEC IS EMAAR, THE ECONOMIC CITY.

Emaar, The Economic City (EEC) is a Tadawul-listed real estate development and management company. Its primary focus is the planning and development of KAEC. When it launched its successful initial public offering (IPO) in 2006, EEC made history: more than half of the Saudi population subscribed to shares.

The sole regulator of KAEC is the Economic Cities Authority (ECA), which is headquartered at KAEC.

With a comprehensive scope and a wide spectrum of incentives for investors and residents alike, ECA offers privileged regulations, including: 100% foreign ownership for individuals and organizations, integrated seaport and bonded zone regulations, and ease of access to permits and licenses related to living, working, operating businesses, and owning and managing properties.

IN ITS FIRST 12 YEARS, THE COMPANY HAS ESTABLISHED A SUSTAINABLE FINANCIAL MODEL TO ENABLE THE DEVELOPMENT OF KAEC AND GENERATE CASH INFLOW.

Revenue

1.4 SR billion

	Revenue
2017	1,437,976
2016	2,267,771
2015	1,022,957
2014	1,064,342
2013	833,452

Net Profit

222.7 SR million

	Net Profit
2017	222.7
2016	719.0
2015	301.3
2014	378.8
2013	273.3

Total Assets

17.3 SR billion

	Total Assets
2017	17,295,641
2016	16,569,489
2015	18,037,660
2014	16,206,132
2013	14,346,451

Shareholders' Equity

8.0 SR billion

	Shareholders' Equity
2017	8,007,120
2016	7,784,399
2015	8,516,695
2014	8,215,393
2013	7,836,566

King Abdullah Port

17.3 km^2

50% developed

Industrial Valley

118 National and international companies

Commercial Properties

97 National and international companies

Residential Properties

13,454

Total number of residential products

Bay La Sun

96 thousand metres^2

100% developed
High-end communities

Al-Murooj

3.7 million metres^2

55% developed
High-end communities

Al Talah Gardens

3.2 million metres^2

63% developed
Middle-income communities

Al-Waha

243 thousand metres^2

82% developed
Middle-income communities

Al-Shurooq

150 thousand metres^2

100% developed
Affordable communities

CREATING UNIQUE OPPORTUNITIES

Looking back over the 12 years since development of King Abdullah Economic City began, it is remarkable to consider how much has been achieved in such a short time span. From being a bold and creative concept – building a fully-fledged city with an eventual population of two million on a virgin site to the north of Jeddah – we have truly transformed ambition into reality.

Building new cities is invariably seen as a function of governments, yet KAEC is one of the world's largest private sector development projects. This mammoth undertaking has required significant levels of collaboration between the various stakeholders. The result is a city of the 21st century in every sense, but equally important is KAEC's contribution to the Kingdom of Saudi Arabia, its economy, its people, and its future.

A prime example is the King Abdullah Port, now the second biggest in Saudi Arabia and growing rapidly. The port is an engine for the entire country, leading the growth in logistics industries and manufacturers coming to Saudi Arabia for the first time, and attracting new companies and new capital, rather than just diverting them from other parts of the Kingdom.

The diversity of KAEC's educational resources is another key national feature. The Prince Mohammad Bin Salman College of Business and Entrepreneurship is connecting students to changes in information technology, the global economy, new business models, and emerging industries – creating entrepreneurial professionals who are equipped to succeed in the dynamic working environments of the future.

In its first 12 years, the Company has established a sustainable financial model to enable the development of KAEC and generate cash inflow. In this context, 2017 was an excellent year when we achieved robust results across all key performance metrics. Specifically, these were: revenues – SR 1.4 billion; gross profit – SR 822.4 million; net profit – SR 222.7 million; and earnings per share of SR 0.28. Considering the challenging economic environment, these figures represent an impressive achievement.

Since 2011, we have been positive in terms of cash flow. I believe we can sustain this trend: we have the value proposition and we have the key catalysts, such as the new Haramain High-Speed Railway that is due to become operational very soon.

The next phase of our strategy entails expansion within sectors prioritized by the national development plans that go with Vision 2030, and in which the Company has gained experience: developing sectors such as tourism, healthcare, education, urban planning, and other areas that will benefit from the economic activity within KAEC.

In closing, it is my honor on behalf of the Board of Directors, to express our sincere appreciation to the Custodian of the Two Holy Mosques, King Salman Bin Abdulaziz Al-Saud, His Royal Highness Prince Mohammad Bin Salman, the Crown Prince, and all Government ministers.

H.E. Mohamed Alabbar
Chairman

H.E. Mohamed Alabbar
Chairman

Mr. Abdullah Kamel
Vice Chairman

H.E. Khalid Al Molhem
Board Member

Mr. Ahmed Jawa
Board Member

Mr. Abdulrahman Alrowaita
Board Member

Mr. Jamal Bin Theniyeh
Board Member

Mr. Fahd Al-Rasheed
Managing Director and Group CEO

H.E. Saud Al Saleh
Board Member

Mr. Abdullah Taibah
Board Member

A NEW ERA FOR SAUDI ARABIA

"WE NOW HAVE A VERY REAL CITY, WITH RESIDENTIAL, COMMERCIAL AND INDUSTRIAL AREAS."

There can be no better testimony to the success of KAEC than the number of local and international corporations that have chosen to invest here. We have now attracted about 215 companies – including global names such as Volvo, Mars, Pfizer, Alstom, Total and Sanofi.

They have come because of KAEC's inherent attractions as a trading hub and its development as a very real and well-executed city, not just a planners' concept. We have residential, commercial, and industrial areas. We have education and healthcare facilities, green spaces, and waterways. We have hotels, and leisure and entertainment venues. Yet we are barely one-third of the way to completing the entire master plan.

KAEC now has developed area of 23 km^2, with 31 km^2 under development and a further 31 km^2 being planned and designed – all connected by 170 km of primary and secondary roads, 11 km of cycle paths, and 3 km of waterways. A further 107 km of roads are currently under design and construction. This infrastructure will connect the city, all the way from east to west and north to south because our main projects are not concentrated in any one area.

By attracting business entrepreneurs and actively supporting their success, we accelerate the growth cycle within KAEC and further increase the number of residents and visitors. We are also developing plans and strategies to expand within education and healthcare, and further attract specialized entities to invest in these sectors.

In the current phase of the master plan, we continue with development and construction works, focusing on King Abdullah Port and the Industrial Valley as the most important elements for attracting investors and driving construction activity. This in turn leads to creating new employment opportunities, increasing the demand for KAEC's property products and services. For example, the pharmaceuticals sector was identified as a key opportunity for KAEC from the beginning. Now, we have 11 major pharmaceutical corporations based here that will eventually many career opportunities.

Housing is a crucial influencer for business and industry. We offer a broad range of residential developments that satisfy all segments and income groups – including medium and limited income earners – through direct development or by real estate investors. At the same time, we are diversifying our real estate product base by offering industrial land for sale and rent, specifically to stimulate a faster development cycle.

During 2017, we completed housing projects in Al-Waha, Al-Shurooq, Al-Murooj, and the Marina and Beach Towers in Bay La Sun, as well as residential properties that are part of Al Talah Gardens. An overall goal is to maximize the benefits of our location on the Red Sea coast, with easy access to the holy cities of Makkah and Medina, and our connection to both through the Haramain High-Speed Railway.

We are also developing the tourism and entertainment sectors to increase recurring revenues and the number of tourists visiting KAEC, thereby stimulating demand for our housing products. We now have two hotels, with the third under construction, and three more are at the design stage. In 2017, we had close to 400,000 visitors, including business tourism to conferences and exhibitions. For 2018, we have a target of bringing a million people to KAEC.

Entertainment events were also a big draw, most of them staged in partnership with the General Entertainment Authority, underlining our endorsement by the government and positioning KAEC as the perfect venue for entertainment events in the Western region.

Today and for the future, lifestyle is a crucial KAEC differentiator, in terms of how we design the city and give residents the ability to enjoy their environment and appreciate the natural beauty of the location. Our studies show that it takes only three visits for people to consider living here.

I thank our Board of Directors, my management colleagues, and all our employees who have achieved so much by creating an environment that people find irresistible.

Fahd Al-Rasheed
Managing Director and Group CEO

EXECUTIVE MANAGEMENT

Fahd Al-Rasheed
Managing Director and Group CEO

Ahmed Linjawy
Deputy Chief Executive Officer

Wafa Al-Hameedi
Chief Information Officer and
CEO, Emaar Knowledge Company

Ayman Mansi
CEO, Industrial Valley and
Head of New Business Ventures

Fahd Hamidaddin
Chief Commercial Officer

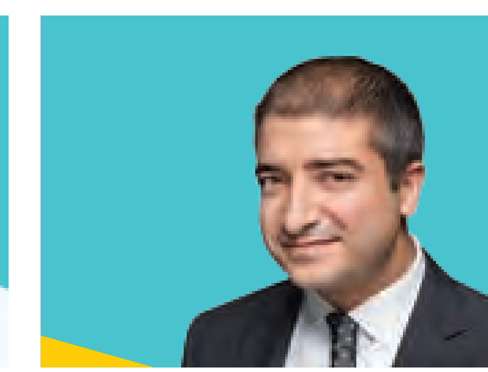
Mohamad Ballout
Senior Director, Head of Leisure
& Retail Operations

Faisal Faruqi
Group Chief Financial Officer

Charles Biele
CEO, Residential Development

Ramzi Solh
CEO, Commercial Development

Mazen Tammar
Executive Director, Healthcare
& Education Development



Karim Mourad
Advisor to GCEO & Chief Compliance Officer
& Head of Board and Shareholders Affairs

Hani Gharbawi
General Counsel and
Chief Corporate Affairs Officer

ECONOMIC RENEWAL

VISION 2030 WILL TRANSFORM THE RED SEA COAST

Vision 2030 puts Saudi Arabia at the heart of the Arab and Islamic worlds – their investment powerhouse and the hub connecting three continents. Top strategic priorities are to become one of the top 10 countries on the Global Competitiveness Index, to attract foreign direct investment, and to increase the private sector's GDP contribution.

VISION رؤية 2030
المملكة العربية السعودية
KINGDOM OF SAUDI ARABIA

NEOM
A futuristic economic zone to be built close to the border region of Saudi Arabia, Jordan, and Egypt. Phase one is due for completion by 2025.

RED SEA PROJECT
A planned luxury destination situated across 50 islands of a coastal lagoon. Saudi Arabia's next-generation eco-touristic experience.

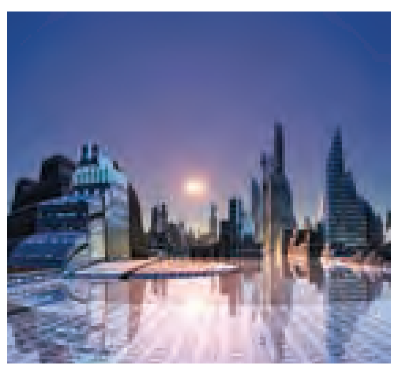
KING ABDULLAH ECONOMIC CITY
Encompassing 168 km^2 between Jeddah, Makkah, and Medina. A state-of-the-art city with residential, leisure, industrial, and commercial dimensions.

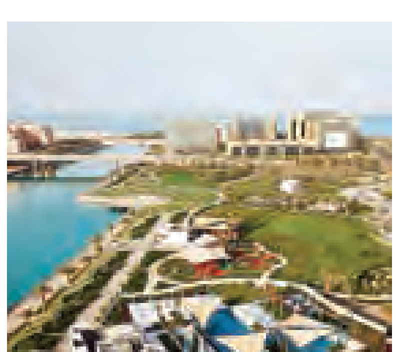
AL-FAISALIAH CITY
A major new economic center designed to expand the capacity of the Holy City of Makkah, planned to accommodate 6.5 million people by 2050.

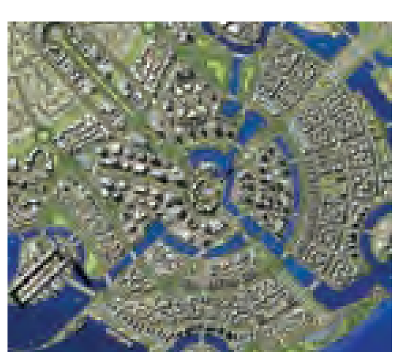
JAZAN CITY FOR PRIMARY AND DOWNSTREAM INDUSTRIES
Will cover 106 km^2 on the south western Red Sea, concentrating on heavy industries including petrochemicals and mining.

ECONOMIC RENEWAL

VISION 2030 WILL TRANSFORM THE RED SEA COAST







The Kingdom's geographic position between key global waterways makes it an epicenter of trade and a global gateway, with the Red Sea coast taking a crucial role in fulfilling the country's visionary objectives.

Multiple projects are planned or under way, spanning more than 1,200 km of Saudi Arabia's western shoreline – the Red Sea corridor. And KAEC is at the beating heart of the entire region.

A New Chapter in Five Millennia of History

For about 5,000 years, the Red Sea has been an artery for trade. From the ancient Egyptians to the Greek and Roman eras, through the Middle Ages, to the 20th century, various cultures have left their mark to varying degrees.

Today, the Red Sea is the gateway for nearly a tenth of the world's trade flows and Saudi Arabia is a dominant player in its socio-economic development, masterminding a series of ambitious and visionary projects that are transforming the Red Sea coastline.

NEOM

NEOM is a 26,500 km² economic zone to be built in Tabuk, close to the border region of Saudi Arabia, Jordan, and Egypt, linked by a bridge across the Gulf of Aqaba to create the world's first independent special zone stretching over three countries. Master plans envisage robots performing functions such as security, logistics, home delivery, and caregiving, with power derived solely from wind and solar.

NEOM's strategic location will facilitate the zone's rapid emergence as a global hub. It will focus on nine industries: energy and water, mobility, biotech, food, technological and digital sciences, advanced manufacturing, and media and entertainment.

Planning and construction of NEOM will be initiated with $500 billion from the Public Investment Fund and international investors, with the first phase is scheduled for completion by 2025. The urban area will stretch into Jordan and Egypt, creating the world's first independent special zone stretching over three countries.

Red Sea Project

The Red Sea Project will be an exquisite resort destination comprising 50 untouched natural islands of a lagoon. Setting new standards for sustainable development, the project promises the next generation of luxury travel.

The project is located between the cities of Umluj and Al Wajh, an area characterized by its year-round temperate climate. Situated along 200 km of coastline, the Red Sea Project will form an archipelago that is home to environmentally protected coral reefs, mangroves, and several endangered marine species.

Tourists will also be able to visit the ancient ruins at Mada' in Saleh, renowned for their beauty and historical significance dating back thousands of years and the first location in Saudi Arabia to be classified a UNESCO World Heritage site.

The Red Sea project is projected to welcome one million visitors annually by 2035, with numbers capped to protect the ecosystem and preserve the area's natural habitat. Ground-breaking is expected in the third quarter of 2019 and it is projected to contribute SR 15 billion per annum to the Kingdom's GDP, creating up to 35,000 jobs.

King Abdullah Economic City – KAEC

Located mid-way between Makkah, Madinah and Jeddah, KAEC encompasses some 168 km², roughly equivalent to the size of Washington DC. The mega-project was announced in 2005 by King Abdullah Bin Abdulaziz Al-Saud, the late ruler of Saudi Arabia. It is divided into six main components: industrial, seaport, residential, beach resort, educational, and central business district.

The city is located on the Red Sea coast, around 100 km north of Jeddah, the commercial hub of Saudi Arabia. The Haramain High-speed Railway, expected to carry around three million passengers a year, will soon link KAEC to Jeddah, as well as the holy cities of Makkah and Medina.

Over the past few years, KAEC has established its credentials as a major social and economic growth driver in the Kingdom. Developed by Emaar, The Economic City, it is on track to be home to up to two million people and investment projects worth a total of $100 billion. Through the King Abdullah Port, KAEC is also establishing itself as a regional transshipment and logistics center.

Al-Faisaliah City

Al-Faisaliah City is a major new economic center designed to expand the capacity of the holy city of Makkah. It is planned to provide 995,000 housing units and accommodate 6.5 million people by 2050. It will also provide one million jobs in sectors including healthcare, education, technology, and services.

The development spans 2,450 km² from the Makkah Haram boundary towards the coastline. Like other Red Sea Corridor developments, Al-Faisaliah City is intended to support Saudi Arabia's diversification away from oil and gas. It is planned to produce 9.5 GW of energy from renewable sources and accommodate some 10 million Haj and Umrah pilgrims.

The design features a government complex, an Islamic center, meeting and conference venues, schools, healthcare centers, malls, entertainment venues, industrial facilities, an airport, seaport, and train, metro, and tram lines.

Jazan City for Primary and Downstream Industries

Jazan City for Primary and Downstream Industries is located on the southwestern Red Sea coast, 66 km north of old Jazan City.

With its 106 km² area, and being close to the Horn of Africa, the new city is strategically located close to international shipping routes. It is also crossed by the Chinese global initiative – the 21st Century Maritime Silk Road.

The new development will concentrate on heavy industries including petrochemicals and mining to provide bio-energy, localize ship manufacturing, and take advantage of the area's mineral, agriculture, wildlife, and fishing resources. The city will also host the world's largest industrial gas complex.

26,500 km²
NEOM area

35,000
Red Sea Project job creation

2 million
KAEC's potential total residential population

10 million
Al-Faisaliah City pilgrims' accommodation

106 km²
Jazan City for Primary and Downstream Industries area

QUALITY OF LIFE

LIVING, WORKING, AND ENTERTAINMENT

AL-MUROOJ | BAY LA SUN | AL TALAH GARDENS | AL-WAHA | AL-SHUROOQ

As the Kingdom diversifies and transforms its economy, KAEC is at the vanguard – offering new concepts in living, lifestyle, leisure, and entertainment. With a host of amenities already open and new housing projects completed across every income segment, the city offers a truly unique lifestyle and quality of life.

KAEC's residential areas are served by community parks, recreational areas, walking trails, and lush green spaces.

The Marina Yacht Club is a great achievement and will become the first 'green' marina in Saudi Arabia.

QUALITY OF LIFE

LIVING, WORKING, AND ENTERTAINMENT

55.5 %
Total developed residential plots

9
Developed leisure and tourism projects

10
Medical specialities

34
2017 leisure and entertainment events

30,600
2017 average monthly visitors

By unit sales, KAEC has been the number one residential developer in Saudi Arabia since 2014, further reinforcing this position during 2017.

KAEC's holistic concept begins with the residential housing solutions mix, designed to cater for all income groups and ranging from affordable to high-end luxury – all served by community parks, recreational areas, walking trails, and lush green spaces. The city is now at the tipping point – with housing delivered, the port open, industry thriving, office space being taken up, a growing number of retailers, and a top-class hotel and convention center fully operational.

At the upper levels, the Al-Murooj district is now home to the Royal Greens Golf and Country Club and an integrated villas development, incorporating beach-front and course-facing communities. The resort won the 2016 Best International Leisure Development category at the prestigious International Property Awards in London, competing against 1,500 entries from more than 150 countries.

This achievement was repeated by KAEC's Esmeralda Sports and Leisure Center, due for completion in 2018. This is the first time that projects from the same country have won this award in successive years.

Now, the Royal Greens course is set to host a European PGA Tour event in association with the General Sport Authority, putting KAEC in front of a global TV audience. The tournament, the first in a three-year partnership, will take place from January 31 to February 3, 2019, and will form part of the early season Gulf desert swing which already includes the Abu Dhabi Championship and the Dubai Desert Classic.

Also at the early planning stage is a mixed-use beachfront development that will augment the range of residential accommodation and lifestyle amenities that underpin KAEC's philosophy to create attractive surroundings and living standards for everyone.

KAEC's approach to satisfying the needs of residents has been a feature of the development since its earliest days, when staff accommodation set a new quality benchmark, providing recreational facilities, centralized meals, and amenities such as a gym, health clinic, and a mini mart. The rationale is that looking after workers boosts productivity, as well as being socially responsible.

Western Region Hub for Family Activities

By enhancing visitors' enjoyment, KAEC develops a relationship that supports longer-term plans to become a prime leisure destination. A crucial factor has been the decision to establish, manage and operate leisure assets, rather than contracting with external operators. This enables unified and harmonized management, creating a synergy of quality and efficiency across a diversity of businesses.

A mix of long-term and short-term projects has been adopted, starting with quick enablers to boost the city's attraction as a weekend destination. More than SR 1 billion has been invested in these smaller projects. Among them are weekend events such as concerts and family events, but on a larger scale. KAEC has established a destination management office to help put the city on the map as the place to go for leisure and entertainment experiences.

Other projects include a 4D theater, a marina and yacht club, a desert camp site, an equestrian club, go-karting, and mini-golf – facilities that attract families to do much more when they visit KAEC to attend an event.

The Marina Yacht Club alone is a great achievement, part of a longer-term plan to make KAEC a unique maritime destination on the Red Sea. Offering several types of recreational trips, KAEC owns and operates eight boats for fishing and diving trips, or simply to enjoy the sail. For serious underwater enthusiasts, a five-star scuba diving center caters to all their needs, as well as teaching beginners.

The yacht club is set to become the first 'green' marina in Saudi Arabia, adopting operating standards that are eco-friendly to the ocean such as catch-and-release fishing, protecting coral reefs by installing buoys for anchoring, and educating students and visitors on how to respect the sea and the marine environment. The man-made canal that runs through KAEC's coastal community is already home to dolphins and whale sharks.

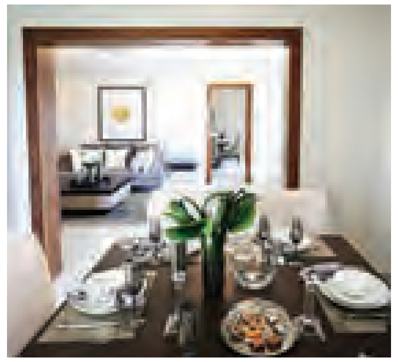
The Beach Retreat captures the Arabian camping spirit in a facility that is luxurious and unique, adapting to the preferred Saudi style of camping. After checking-in visitors are taken by camels to their accommodation. Four desert tents have a large structure in the center with a social and barbecue area, enabling gatherings of extended families and friends. This is an outdoor adventure where visitors can be at one with nature, marvel at the desert's star-laden night sky, and enjoy the perfect silence of the morning.

The equestrian center will open in the first half of 2018, and a Juman 4D theatre is currently being constructed. This promises to be a thrill ride for children and adults alike, with interactive special effects that make viewers feel that they are part of the movie. More thrills are available at the water parks and theme parks in the Lagoona area, officially designated as KAEC's play district.

New Retail and Hospitality Attractions

Retail is also a significant part of tourism, not only for residents but for visitors who come to KAEC to enjoy their weekend. Many popular outlets such as Starbucks have already opened along with other leading retail brands. A mid-size shopping mall is now in the pipeline, to be anchored by an international supermarket chain, with 40-50 other retail offerings and a cinema.

The city's first hotel opened in the Bay La Sun district in 2013, part of KAEC's coastal communities. As a major part of the hotel's business is corporate, there is significant demand for meetings and corporate events. In response, KAEC developed meeting rooms – uniquely shaped, flexible, and equipped with recreational facilities such as bowling alleys, shooting ranges, and motor racing simulators.



KAEC has established a destination management office to help put the city on the map as the place to go for leisure and entertainment experiences.

DRIVERS FOR GROWTH

PORT SPEARHEADS INDUSTRY AND JOB CREATION

11 pharmaceutical businesses are now operational in the city including Pharmaline, Aurobindo Pharma, Pfizer and Sanofi.

KAEC has attracted many large companies to the area from various sectors, including Sunbulah Group, Alshaya International Trading, IKEA, Almarai and Al-Futtaim Group, to name a few.

INDUSTRIAL VALLEY

King Abdullah Port

Strategically located for maximum impact, KAEC is destined to become one of the most important cities in the Middle East region serving global trade and industry. KAEC's core strengths and unique business environment represent the future ambition of the whole of Saudi Arabia.

DRIVERS FOR GROWTH

PORT SPEARHEADS INDUSTRY AND JOB CREATION

Attracting business and industry is essential to realizing KAEC's ambitions, but first the infrastructure and economic magnets had to be embedded. Most of these elements have now been completed – and on a vast scale – setting the scene for an influx of new companies, business activity, and employment opportunities.

From KAEC's current developed area of 23 km^2, 10.8 km^2 are devoted to industrial use, more than 0.43 km^2 are commercial and mixed use, 3.2 km^2 are residential, and King Abdullah Port occupies 17.3 km^2.

The port itself is a major attraction for new industry, already growing to become the second biggest in Saudi Arabia and planned to double in site area and capacity, overtaking Jeddah's number one position. Over the next year, the current four berths will expand to six, with annual container capacity of 3 million TEU (ton equivalent units) reaching 4.5 million TEU by the end of 2018.

When fully developed, King Abdullah Port will have 20 million TEU container capacity, more than 30 deep-water berths (up to 18 meters), roll-on/roll-off capacity of 1.5 million vehicles, and bulk capacity of 15 million tons.

Attracting New Industry

Logistics business is a natural complement to traditional port activities such as freight forwarding and clearing, shipping agencies, and warehousing. As a result, 118 leading businesses – local and international – have joined the manufacturing and logistics hub at Industrial Valley.

The Binzagr Company is a typical example. It has been a leading Saudi distribution company for more than 130 years and has bought a 300,000 m^2 site in Industrial Valley where it is establishing an integrated logistics services center. This will handle receiving and distribution of products from more than 55 brands traded by Binzagr in regional markets. The motivation for the decision was KAEC's extensive transportation and freight facilities, whether by land or sea, and the adjacent infrastructure of a fully-serviced city.

In the retail sector, Dubai based Al-Futtaim Group has bought a 325,400 m^2 site in Industrial Valley to build a logistics and distribution facility. The development will help Al-Futtaim realize its expansion plans and meet the ever-increasing demand for products from the more than 200 companies operating within the group.

Similarly, Alshaya International Trading, the leading Kuwaiti retail and franchise business, has leased 91,000 m^2 in Industrial Valley to provide a new west coast logistics hub and support ongoing expansion in Saudi Arabia. Again, the decision was based on the need for having an efficient supply chain. Alshaya holds a wide portfolio of brands including Starbucks, H&M, Mothercare, Debenhams, and Victoria's Secret.

IKEA, the global home furniture brand, and its logistics partner FLOW have also chosen KAEC as their regional hub, citing efficient port and customs operations, ease of setting up business, lifestyle, and education as major contributory factors in the decision.

Arabian Vehicles & Trucks Industry (AVI) was formed in 1981 as a joint-venture between Zahid Tractor and Volvo Truck Corporation to meet the growing demand for Volvo trucks in Saudi Arabia. The company made a strategic decision in 2013 to build a new factory at KAEC. The state-of-the art facility opened in 2015, with annual capacity to assemble 7,000 units. The first Volvo truck rolled off the KAEC assembly line in June, 2015.

Diversification Thrives

Attracting the pharmaceutical industry has been a KAEC target from the outset and this objective continues to be met, with 11 major pharma businesses now operational in the city.

Among them is the first Pharmaline plant in the region, which opened towards the end of 2016, enhancing the company's access to regional and international markets. Pharmaline focuses on producing a wide range of branded generics and is also the licensee for multinational brands including Abbott, Aegis, GlaxoSmithKline, Merck Serono, Novartis, Phadisco, Pierre Fabre, Swisse, and Tripharma.

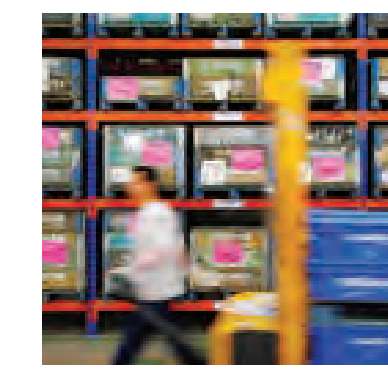
Aurobindo Pharma, the global pharmaceutical manufacturer, also chose KAEC's Industrial Valley as the site for its first manufacturing facility in Saudi Arabia. The plant serves regional markets and complements more than 20 Aurobindo facilities in India, Europe, the USA, and Brazil.

New units in Industrial Valley provide ready-to-occupy manufacturing and warehousing facilities for investors, saving them the time and effort of developing space from scratch. The 12 inter-connected units each offer more than 1,000 m^2 of open space with a further 100 m^2 at mezzanine level. These new businesses are just a small cross-section of KAEC's industrial and commercial growth.

Prepared for Further Expansion

A host of strategic initatives are driving continued development of the city and attracting new investors. The city is more than ready to welcome new industry and fully-prepared to cope with future infrastructural needs. More than 165 km of roads connect all points of the city, with 102 km of water supply network completed and 191.5 km under construction. Average daily water consumption is already 9,775 m^3 and a permanent water plant is at the contract award stage.

The city's sewerage network extends to almost 80 km, with a further 108 km under construction. The electricity network has 348 km completed and 662 km under construction. Apart from industrial, commercial and residential applications, this powers about 7,000 street lights and 6,000 landscaping lights. The telecom network has 208 km completed and 154 km under construction, as well as 39 mobile towers, and fiber availability at 2,767 residential units and 72 business units.



New units in Industrial Valley provide ready-to-occupy manufacturing and warehousing facilities for investors, saving them the time and effort of developing space from scratch.

INNOVATION LEADER

KAEC IS THE ULTIMATE SMART CITY

KAEC aims to be at the heart of innovation. With a focus on data and digital, we are reinventing business models, improving city services, enhancing awareness and knowledge of digital transformation, and facilitating further innovation.

INNOVATION LEADER

KAEC IS THE ULTIMATE SMART CITY

208 km
Fiber implementation

4
Free public wifi zones

360º
Virtual reality tours

10
Personalized app services for residents

Futuristic thinking is at the heart of innovation – and seldom more so than at KAEC, where a 50-year horizon is the benchmark for its 'Smart City' operations, underpinning scalable infrastructure that can support artificial intelligence, deep machine learning, and similar functions that are set to transform the world's understanding of urban reality.

Smart City's strategic objectives are to:

- Instill an open data culture to help service providers and investors provide personalized customer experiences, through access to integrated KAEC data.
- Establish a digital advisory consortium to drive digital innovation in KAEC.
- Reinvent business models to introduce new revenue streams through disruptive technologies.
- Improve city services by introducing agile processes to achieve excellence.
- Enhance awareness and knowledge about digital transformation through coaching, executive programs, and speaker series.
- Facilitate inside out innovation and outside in innovation through Silicon Valley partnerships.

Apps for Convenience

At a time when mobile applications are becoming a prerequisite to customer convenience, KAEC has launched a range of apps for residents, visitors and investors to boost awareness about the city and enhance customers' experience.

With 'Discover KAEC', residents can do almost anything at the tap of a button – from ordering a cab or a pizza, to raising a request. For example, if someone dumps trash outside an apartment, residents can send a picture to accompany their complaint and track progress with how the request is being handled.

An important benefit for residents is that, as soon as they sign in, their account is automatically personalized. If a utility bill is due or a lease payment is needed, this can be dealt with through the resident portal – accessible by mobile and any browser. Very few cities in the world can match KAEC's innovation in this respect. For visitors, Discover KAEC helps them find their way around and explore the many features that KAEC has to offer.

The KAEC Resident Portal has been developed exclusively for residents, enabling them to view their statement of account, submit a service request, or contact KAEC anytime, anywhere.

KAEC is also the first city in the region to have free public wifi – initially at The Beach district, and now being expanding to Juman Park and Industrial Valley. Geofencing around the beacon enables notifications to be pushed for discounts or special offers from merchants in the immediate vicinity. On exiting the city, visitors can push notifications on their experience, helping KAEC to create a direct communications channel with them.

The 'Buy in KAEC' app links users with real estate agents, enabling them to book an immediate viewing appointment as soon as they see a property that appeals to them. The app also provides virtual reality tours, so people can check an apartment or villa from home, take a 3D tour, and even complete their purchase transaction online.

Eliminating Barriers

KAEC has had the opportunity to be holistic in its approach and present all these offerings from the ground up, at the same time amassing large volumes of data – the 'new gold'.

Data becomes a new currency for KAEC, an invaluable asset in attracting inward investors and entrepreneurs seeking a 'plug and play' environment. A fully-fledged GIS system (geographic information) connects all utilities, fiber, irrigation, and other infrastructure resources. This means that when an investor receives a construction permit, everything is on GIS so the contractor knows exactly where to look – no cutting of telecom or power lines and a general boost to efficiency.

Another recent innovation enables automatic online issue of title deeds, a capability exclusive to KAEC within Saudi Arabia. The Company's long-term plan is to remove any kind of unnecessary human interaction, eliminating redundant barriers. One example is the imminent launch of the Citizen ID card, which will give access to virtually all KAEC facilities – from the golf course to cafeterias – at the same time accumulating loyalty program points for users.

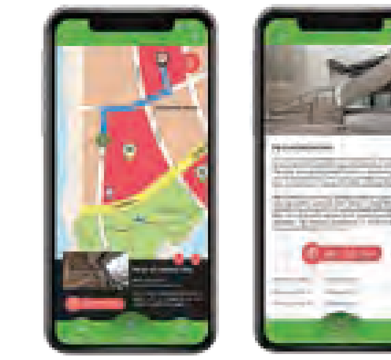
Towards the end of 2017, KAEC launched drone services that will dispense with the need for physical property surveys. Instead of incurring the expense of hiring a surveyor to certify title deeds, drones can provide the same service automatically. The next drone service to be launched is safety and security. Drones will patrol the premises and add a secondary benefit by providing real-time imaging from construction projects, enabling off-site managers to monitor progress.

KAEC digital maps will go live in 2018, integrating with the city's global information systems. The 3D and 2D interactive maps will show KAEC's landmarks and attractions, with navigation capabilities. Maps will be accessible on selected KAEC websites, as well as the Discover KAEC app, making it a valuable tool to market the city's products and services – whether residential, commercial, destinations, or industrial.

Exploring Innovative Technology

With the focus on innovation, the Smart City function will become a separate entity in 2018 – supporting other KAEC companies such as those engaged in healthcare and education. The aim is to experiment with technology and produce what are known as MVPs or POCs – minimal viable products or proofs of concept. For instance, KAEC will have an autonomous car by the end of 2018 which will be the first of its kind – purely electrical, unmanned, and capable of up to 45 km/h. This is just one project where a technology proof of concept can be applied.

The Smart City & Innovation Company is scheduled for launch in mid-2018, moving from a service provider or call center function to an autonomous company and commercializing its operations.



Data becomes a new currency for KAEC, an invaluable asset in attracting inward investors and entrepreneurs seeking a 'plug and play' environment.

DREAM BIGGER

KAEC THRIVES ON HUMAN AMBITION

KAEC's objective is to be one of Saudi Arabia's greatest enablers of social and economic development – and human capital is at its core, enabling people to advance their skills, knowledge, and experience.

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At primary and secondary education level, capacity from kindergarden to Grade 12 is increasing.

DREAM BIGGER

KAEC THRIVES ON HUMAN AMBITION

2,000
School places

600
Pupils at boys' boarding school

3
New colleges planned at MBSC

350
Pilots at Aviation Academy

5,000
Tomouh students target

Education has always been a prime strategic priority for KAEC – positioning the city as a leader in human capital development, empowering and enabling people, and creating a sustainable environment that will enable them to grow professionally and personally.

KAEC's approach is holistic, in the sense of creating an integrated system for talent development, starting from early schooling and leading up to the Prince Mohammad Bin Salman College for Business Administration and Entrepreneurship.

At primary and secondary education level, the city's capacity from Kindergarten to Grade 12 is increasing from 725 to 2,000 through the opening of the World Academy early in 2013. The first senior cohort from KAEC's first school, which opened in 2012, graduated in 2017. Additional schooling facilities are planned, including a boarding school for about 600 boys, the first in Saudi Arabia for close to half a century.

Tomouh

Vocational and skills development is the latest asset to be added to the resources, a spin-off from the Tomouh (Arabic for 'ambition') CSR program launched by KAEC a few years ago. The program involved visiting neighboring villages and creating a database of all the youth of high school age or beyond who could not find an opportunity in the job market.

Tomouh was designed as an employability program. It attracted about 700 participants, male and female aged 17 to 24, but after completing the program only very few had found jobs. The program needed to be totally re-configured, addressing psychological barriers, skills barriers, and getting employers involved so that training would cover the skills that the jobs market needs.

The outcome was the 2016 launch of Tomouh 2, with the target increased from 700 to 1,000 students. They were supported by contracting with specialist training providers and up to 100 hours of hands-on training at the factories of prospective employers.

His Royal Highness Prince Khalid al-Faisal, the Governor of Makkah Province, was so impressed with Tomouh 2 that he took the program under his patronage and set a new annual intake target of 5,000 students.

Recently the 2017 graduation of Tomouh 3 has taken place, under the patronage of Prince Khalid al-Faisal. For the latest intake of 1,000 places, there was 54,000 applicants from across the Kingdom.

A distinguishing element of Tomouh is the career fair held after every graduation. This is a students' project, with teams taking responsibility for administration, logistics, marketing, and communication with prospective employers. The most recent career fair attracted 153 companies, presenting over 4,800 jobs for the 1,000-plus graduates.

This third instalment of Tomouh is demonstrating proof of concept, having evolved from a CSR program to the planned launch of a fully-fledged vocational college during 2018. This will be funded by KAEC and operated by a consortium of British vocational training companies. During 2018, the plan is for a throughput of 4,000 students.

Prince Mohammad Bin Salman College (MBSC)

MBSC was launched in partnership with Babson College of the USA, ranked number one in entrepreneurship for the last 23 years. It is the first college of its kind in Saudi Arabia and offers a master's degree in entrepreneurship – a full MBA, instead of the basic certificate that is often the case with other colleges.

MBSC is based on what is called 'signature learning', meaning hands on learning – so the training is a one-of-its-kind educational journey. It also has an entrepreneurship center where students can pitch to investors every week.

The college was five years in the making and had its first intake of 89 students in September, 2017. It provides two full-time MBA courses – each requiring five days a week of study for a year, and a part-time course of three days every second week for 16 months.

Many of the MBSC skillsets focus on negotiation, public policy, and executive education courses aligned to Vision 2030. Women in leadership is a particular priority – about 40 percent of the students are female. Digital transformation and innovation are also a key focus.

Plans are now well advanced to upgrade to university status by adding three new colleges, the first being the College of Hotel Management & Hospitality. This will be joined by the College of Fashion & Industrial Communication and the College of Computer Science & Coding. Already, there are 2,300 online applicants for the September 2018 intake.

National Academy for Aviation Technology

KAEC has signed an agreement to establish and operate the National Academy for Aviation Technology (NAAT) through a strategic partnership between the Economic Cities Authority, the Technical and Vocational Training Corporation, Saudia, the Saudi Aviation Club, Saudi Aramco, Ministry of Education, and the Air Technology Company.

The academy's headquarters will be its first branch located in KAEC, where up to 1,000 aircraft technicians and 350 pilots will be trained every year, making it the largest center of its kind in the Kingdom. The academy will be able to directly enrich the local aviation market, which is expected to need 3,000 more employees by 2023.

Education and vocational skills development were an integral part of the KAEC vision right from the outset 10 years ago. And typical of KAEC's achievements, that vision is becoming more physically apparent with each passing day.

KAEC's approach is holistic, in the sense of creating an integrated system for talent development, starting from early schooling.

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BOARD OF DIRECTORS' REPORT

Introduction

Esteemed ladies and gentlemen, shareholders of Emaar, The Economic City, may the peace, mercy, and blessings of Allah be with you.

The Board of Directors of Emaar, The Economic City, is pleased to present the Board's annual report for the financial year ending December 31, 2017, for discussion and then approval by the Annual General Meeting, as required by the Company's bylaws. This report includes a letter from the Chairman of the Board highlighting the Company's performance and achievements during last year, in addition to the financial statements and auditor's report for the period.

The report also includes a comprehensive summary on the Company's governance mechanism and declarations by the Board of Directors, its committees and senior executives, as well as contracts and transactions with concerned parties. It also includes the decisions taken by the Board.

Based on the Board's dedication to transparency and continuous disclosure according to the regulations issued by the concerned entities, and based on the local and international parties in this domain, this report conforms with Article 90 of the Corporate Governance Regulations issued by the Capital Market Authority on February 13, 2017, and Article 65 relating to the regulations of stocks listing and ongoing adherence issued by the Board of the Capital Market Authority on December 31, 2017.

Overview of the Company and its Activities

Emaar, The Economic City was established as a Saudi public shareholding company, by Ministerial Decree No 5233, on September 26, 2006.

The Company was listed on the Saudi Stock Exchange (Tadawul) on October 7, 2006 with a registered capital of SR 8.5 billion, distributed over 850 million shares, each with a nominal value of SR 10.00. The Company listed 30% of its total shares and attracted a record number of shareholders, exceeding 10 million.

The Company is active in the development of land and property in specialized economic zones or other areas, including the development of infrastructure; promoting, marketing and selling of land for development by other parties; renting and development of buildings and housing units; construction of property on lands for others and the development of economic zones, maritime ports, and any other activities necessary to achieve its objectives.

The Company is involved in the development of King Abdullah Economic City (KAEC), which is located 90 km north of Jeddah on the Red Sea coast. The Economic Cities Authority, established by Royal Decree No 19 issued on February 23, 2010, is responsible for economic cities to achieve its objectives in relation to developing national capital, attracting foreign investments, and achieving the objectives of the Kingdom's economic plans.

King Abdullah Economic City is one of the world's largest private sector projects. The Company's headquarters are located in the business center of KAEC.

Achievements in 2017

During the first 10 years of its establishment, the Company was able to build strong economic bases represented in infrastructure, the port, and the industrial valley, attracting companies and residents and providing suitable services to them. That also included establishing the financial model to develop the KAEC, strengthen the Company's financial solvency, and develop its cash inflow.

It was also able to prove its role as one of the development and economic drivers in the country in accordance with the Kingdom's Vision 2030 in stimulating the government's drive towards the privatization of developmental projects and partnerships with the private sector in many vital sectors.

Emaar, The Economic City is continuing the development of KAEC according to a strategic plan that aims to create a flourishing environment and sustainable development, dependent on heavy investments in infrastructure, basic necessary services, and most importantly, the port and the industrial area to attract investors including companies, factories, and commercial and service establishments to KAEC.

This in turn leads to encouraging residents to move to KAEC and then achieve a growth in demand for the Company's property products and services. The current phase of the strategic plan is to:

1. Continue the development and construction works at KAEC with a focus on the port and the industrial valley as the most important attracting elements for investors in and the key drivers of construction activities.
2. Continue to attract companies, factories, and commercial establishments, which in turn lead to creating new job opportunities, thus increasing the demand for property products and services.
3. Offer a number of housing products that satisfy all social segments and all income groups, including medium and limited income earners, through direct development by the Company or by real estate investors.
4. Develop the tourism and entertainment sectors in line with the needs of the different groups within the Kingdom to increase recurring revenues and operational profits and increase the number of visitors to KAEC which in turn plays a role in increasing the demand for different housing products.
5. Embrace and organize international and local events and activities, including government-related cultural, educational, and entertainment events, in addition to meetings of the private sector, which in turn enriches the cultural and social scene in KAEC and increases the demand for its different products.
6. Embrace and attract business entrepreneurs, both small and medium enterprises, and encourage their growth. This in turn makes the growth cycle faster within KAEC and increases the number of residents and visitors, leading to increased services.
7. Develop plans and strategies to expand within education and healthcare and attract specialized entities to invest in these sectors.
8. Maximize the benefit from the geographical location of KAEC and its location between Makkah and Medina, and being connected to both cities through Haramain Train, in addition to its location on the Red Sea coast.
9. Diversify the real estate product base provided by the Company by offering industrial and housing land for sale and rent, specifically to stimulate a faster development cycle and provide additional liquidity needed to develop KAEC.
10. Continue entering into strategic partnerships with the private and public sectors in some necessary mega projects to support and speed up the development of KAEC.
11. Follow best practices in managing and operating KAEC and offering services to investors and residents at affordable prices.

Achievements in 2017 continued

As a result of this ongoing strategy, we continued moving forward the development cycle of KAEC which is the only geographical area in which the Company operates. This includes a world-class port operating 24/7, now the fastest growing port in the world, in addition to world-class factories operating within different industries, all leading to making KAEC one of the most important shipping and logistics services in the world.

The city also includes housing projects that satisfy the needs of all social categories, specialized education projects such as Prince Mohammad Bin Salman College of Business and Entrepreneurship, and comprehensive infrastructure and special hospitality and entertainment services dedicated to residents and visitors alike.

During the year, the Company also continued delivering housing units that were completed in Al Waha, Shurooq, Murooj, Marina Towers, and The Beach in Bay La Sun, in addition to the housing properties as part of Tala and The Beach plans. It also signed contracts for industrial lands with several leading companies in the industrial and logistics fields.

It also hosted several festivals and entertainment events, in cooperation with the General Authority for Entertainment.

Other Decisions and Developments

This report outlines the latest projects completed in KAEC according to the adopted development strategy. Following is a summary of the most important achievements up to the end of 2017:

General Assembly resolutions

Fifth Extraordinary General Assembly

Emaar, The Economic City held its fifth Extraordinary General Assembly on Monday April 24, 2017. The following decisions were approved:

1. Approving the Board of Directors report for the financial year ending December 31, 2016.
2. Approving the Company's financial statements for the financial year ending December 31, 2016.
3. Approving the auditors' report for the financial year ending December 31, 2016.
4. Approving the commercial transactions and contracts represented in the renewal of a rent contract in the Industrial Valley with the Ports Development Company in which Board Member H.E. Khalid Al Molhem, Chief Executive Officer and Delegate Member Mr. Fahd Al-Rasheed, and Deputy Chief Executive Officer Mr. Ahmed Lenjawi occupy the role of Board Members, at the cost of SR 850 per m^2 and licensing it for a coming year, knowing that the value of transactions for the previous year reached SR 2,106,320 which included rent, services, and facilities bills, in addition to the refundable insurance fee on all rents.
5. Approving the commercial transactions and contracts represented in continuing a development rent contract for 25 years that began on September 2014 on industrial land in the Industrial Valley with an area of 106,100 m^2 with Dallah Trading Group managed by Mr. Abdullah Kamel, Vice Chairman of the Board, and licensing it for a coming year, knowing that the value of transactions for the previous year reached SR 1,167,100 including rent and service bills.
6. Approving the commercial transactions and contracts represented in continuing a rent contract for a period of 20 years, starting from January 2012 for industrial land for Saudi Airlines Catering in which Mr. Fahd Al-Rasheed and Mr. Abdullah Taibah are Board Directors, and licensing it for a coming year, knowing that the value of transactions for the previous year reached SR 1,047,603 as rent and service fees and utility bills.
7. Approving the commercial transactions and contracts represented in continuing a rent contract for a period of 20 years starting from September 2013 of an industrial land for Petromin Oils in which Mr. Fahd Al-Rasheed occupies the role of Board Member, and licensing it for a coming year, knowing that the value of transactions for the previous year reached SR 1,351,777 as rent and service fees. The contract was signed two years ago with the Red Sea Company and then transferred in 2016 to Petromin Oils.
8. Approving the commercial transactions and contracts represented in continuing a rent contract for a period of 15 years, starting from September 2014, for Namarq Company in which Mr. Mohamed Naghi owns 80% of shares, and licensing it for a coming year, knowing that the value of transactions for the previous year reached SR 1,374,000 as rent, service fees, and utility bills.
9. Approving the commercial transactions and contracts represented in the sale of an industrial land in 2012 to Scala Trading Company, owned by the brother of Emaar's Board Member Mr. Mohamed Naghi, in the amount of SR 25,000,000, and licensing it for the coming year to offer services, knowing that the value of transactions for the previous year reached SR 31,250 as service fees.
10. Approving the commercial transactions and contracts represented in the sale of an industrial land in 2012 to Scala Pharmaceuticals warehouse, owned by the brother of Emaar's Board Member Mr. Mohamed Naghi, in the amount of SR 14,605,000 and licensing it for the coming year to offer services, knowing that the value of transactions for the previous year reached SR 2,161,850 as service providing fees as per contract.
11. Approving the commercial transactions and contracts represented in a rent contract for a period of 20 years starting from February 2016 of an industrial land for Scala Pharmaceuticals – part of Scala Trading owned by the brother of Emaar, The Economic City's Board Member Mr. Mohamed Naghi, and licensing it for a coming year, knowing that the value of transactions for the previous year reached SR 464,769 including rents and service fees.
12. Approving the commercial transactions represented in an amendment in the amount of SR 350,497 on the contract related to the construction and electrical services with Naghi Marine in which Mr. Mohamed Naghi occupies the role of Board Member, and licensing it for a coming year, knowing that the value of transactions for the previous year reached SR 2,094,772 for executing work as per contract.
13. Approving the commercial transactions and contract represented in the construction and electrical services contract, starting in November 2015 and amended in September 2016, with Naghi Marine in which Mr. Mohamed Naghi occupies the role of Board Member, by which the total value of the contract became SR 975,960 and licensing it for a coming year.
14. Approving the commercial transactions and contracts represented in the contract of executing infrastructural works in Al Murooj plan (GC5), starting from October 2016, in the amount of SR 32,500,000 with an amendment on the contract in the value of SR 2,597,125 with Arabian Spare Parts and Maintenance in which Board Member Mr. Mohamed Naghi owns 80% of shares, and licensing it for a coming year, knowing that the value of transactions for the previous year reached SR 3,250,000 against advance payment as per contract terms.
15. Approving the commercial transactions and contracts represented in the contract of executing infrastructural works in Al Murooj plan (TH3), starting from January 2017, in the amount of SR 18,800,000 with Arabian Spare Parts and Maintenance in which Board Member Mr. Mohamed Naghi owns 80% of shares, and licensing it for a coming year.
16. Approving the commercial transactions and contracts represented in advanced licensing for the coming year to buy raw material from the Ports Development Company in which Board Member H.E. Khalid Al Molhem, Chief Executive Officer, and Delegate Member Mr. Fahd Al-Rasheed and Deputy Chief Executive Officer Mr. Ahmed Lenjawi occupy the role of Board Members, at the cost of SR 10 per m^3. These materials are to be used in the dividing and reclamation works in KAEC and the requirements related to rain water and flood management. The company expects to buy around 10 million m^3 of these materials in the next two years.
17. Approving the commercial transactions and contracts represented in a contract for consultancy services upon request between the Company and Turner Engineering Consultants Ltd, in which Emaar Properties Chairman H.E. Mohamed Alabbar owns a big part, and licensing it for a coming year, knowing that the value of transactions for the previous year reached SR 27,717,198 against servicing bills for the previous years.

Other Decisions and Developments continued

18. Approving the commercial transactions and contracts represented in supplying TV screens from United Naghi in which Board Member Mr. Mohamed Naghi owns 20% of shares, and licensing it for the coming year, knowing that the value of transactions for the previous year reached SR 114,483 against supplying TV screens as per commercial prices.
19. Approving the commercial transactions and contracts represented in continuing a rent contract without fees to a commercial shop over an area of 925 m² for five years starting from February 2013 for Saudi British Bank, in which Board Member at Emaar, The Economic City, H.E. Khalid Al Molhem occupies the role of Board Member, and licensing it for the coming year, knowing that the value of transactions for the previous year reached SR 391,580 as service fees.
20. Approving the commercial transactions and contracts represented in continuing a rent contract to a commercial shop over an area of 146 m² in Al Sahel (1) Towers for five years, starting from April 2013 to Lina's Light Foods, in which first grade relatives to Board Member H.E. Khalid Al Molhem own 80% of shares, and licensing it for the coming year, knowing that the value of transactions for the previous year reached SR 99,000 as rent and service fees.
21. Approving the commercial transactions and contracts represented in a management and service contract for a period of 10 years, starting from January 2013, with Al Khozama Management Company in which Mr. Abdulrahman Alrowaita occupies the role of Board Member, and licensing it for the coming year, knowing that the value of transactions for the previous year reached SR 2,145,996 against a percentage of returns as management and marketing fees and a percentage of operational profits as incentive returns as per contract terms.
22. Approving the commercial transactions and contracts represented in a management and service contract for a period of five years, starting from November 2016, through a company that belongs to Emaar, The Economic City (Economic Cities Properties Management and Operations Company Ltd) to operate The Views hotel apartments building with Al Khozama Management Company in which Mr. Abdulrahman Alrowaita occupies the role of Board Member, and licensing it for the coming year, against a percentage of returns as management and marketing fees and a percentage of operational profits as incentive returns.
23. Approving the commercial transactions and contracts represented in an advanced licensing for the coming year to continue offering services by Halwani Brothers in which Mr. Abdulrahman Alrowaita occupies the role of Board Member, and which previously bought an industrial land site in 2013. The value of transactions for the previous year reached SR 37,145 as service fees as per contract.
24. Approving the commercial transactions and contracts represented in continuing the rent contract of commercial offices for a period of five years starting in November 2014 with Okaz Journalism and Publishing Est in which Mr. Abdullah Kamel occupies the role of Chairman, knowing that the value of transactions for the previous year reached SR 426,600 as rent and service fees and refundable insurance deposit.
25. Approving choosing Ernst & Young as auditors from among the candidate companies by the Audit Committee to audit the financial statement for the financial year 2017 and deciding their fees.
26. Approving the release of the Members of the Board from their liabilities for the financial year ending on December 31, 2016.
27. Approving amending the Company's bylaws according to new companies' regulations and Model No 4 issued by ministerial decision No 18379 on March 10, 2016.
28. Approving forming the Audit Committee and adopting the regulation updates for choosing its members and setting its duties, working criteria, and remuneration of members in the current cycle (2017-2020), knowing that the nominees were H.E. Khalid Al Molhem (Independent Member of the Board), Dr. Faisal Al-Mubarak (Independent Member), Mr. Alaa Al-Jabri (External Member with experience in finance and accounting).
29. Approving distributing an amount of SR 3,462,466 as rewards and compensations to the Board Members against their membership and managerial role in the Company's Board of Directors for the period January 1, 2016 to December 31, 2016.

The Tadawulaty shareholders electronic voting system offered by the Saudi Stock Exchange (Tadawul) was utilized, with voting available for five days prior to the General Assembly.

13th Ordinary General Assembly

Emaar, The Economic City held its 13th Ordinary General Assembly on Monday September 25, 2017. The following decision was approved:

Electing the Members of the Board based on the voting process for candidates. The General Assembly appointed the following people to the Board of Directors for its new three-year term commencing on September 26, 2017 and ending on September 25, 2020:

- H.E. Mohamed Alabbar — Chairman
- Mr. Abdullah Kamel — Vice Chairman
- H.E. Khalid Al Molhem — Director
- Mr. Abdulrahman Alrowaita — Director
- Mr. Ahmed Jawa — Director
- Mr. Fahd Al-Rasheed — Managing Director and Group CEO
- Mr. Abdullah Taibah — Director
- H.E. Saud Al Saleh — Director
- Mr. Jamal Bin Theniyeh — Director

The Tadawulaty shareholders electronic voting system offered by the Saudi Stock Exchange (Tadawul) was utilized, with voting available for five days prior to the General Assembly.

14th Ordinary General Assembly

Emaar, The Economic City held its 14th Ordinary General Assembly on Thursday December 21, 2017. The following decisions were approved:

1. Approving the commercial transactions and contracts with Rove Company, represented in signing a management and services contract for a period of 20 years.

   The company is part of Emaar Properties, in which H.E. Mohamed Alabbar holds the position of Chairman, in addition to the Board membership of Mr. Ahmed Jawa and Mr. Jamal Bin Theniyeh in both companies, and licensing it for a coming year to operate a hotel in KAEC for a 1.75% return from revenues as management and marketing fees and a percentage ranging between 0%-8% of operating costs as incentive returns as per contract terms, knowing that appointment happened after following all the bidding and reviewing processes required by the Company.
2. Approving the commercial transactions and contracts that will happen with Amlak International represented in signing a sale contract of housing units and granting ownership to nominated citizens by the Ministry of Housing, and in which Mr. Abdullah Kamel occupies the role of Vice Chairman at Emaar, The Economic City, and in which Mr. Abdulrahman Alrowaita holds the position of Board member in both companies, knowing that Amlak is one of the authorized financiers by the Ministry of Housing, among other financing entities.
3. Approving the updating of the working list of the Remuneration and Nominations Committee.
4. Approving the policy of rewarding Board members, committees, and senior executives.
5. Approving the updating of policies and procedures pertaining to the standards of Board membership.
6. Approving the appointment of H.E. Saud Al Saleh (Independent) as a member of the Audit Committee, starting from the date of the General Assembly until the end of the term of the current Committee on April 23, 2020 and replacing the resigning committee member, H.E. Khalid Al Molhem.

The Tadawulaty shareholders electronic voting system offered by the Saudi Stock Exchange (Tadawul) was utilized, with voting available for five days prior to the General Assembly.

Business Outlook

The next phase comes as an expansion process and harvesting the fruits. The Company is setting new plans based on expanding within sectors prioritized by the national development plans and complementing Saudi Arabia's Vision 2030, and in which the Company had gained experience such as ports, logistic services, land, industrial services, housing projects, and developing new sectors in which the government is seeking to engage the private sector and facilitate their funding (tourism, health, education, urban planning) and look into other sectors that benefit from the economic movement within KAEC (property management, provisions, security, etc).

Financial Results 2017

A. Annual income statements for the years 2013 to 2017

	2013 SR '000	2014 SR '000	2015 SR '000	2016 SR '000	2017 SR '000
Revenues	833,452	1,064,342	1,022,957	2,267,771	**1,437,976**
Revenue cost	(128,786)	(336,626)	(456,184)	(1,093,607)	**(615,622)**
Gross profit	704,666	727,716	566,773	1,174,164	**822,354**
Marketing, general and administrative expenses	(422,765)	(301,660)	(332,664)	(598,266)	**(529,691)**
Commission realized from bank deposits and murabaha based deposits	37,144	13,873	21,868	18,150	**15,953**
Financing burdens, net	(83,066)	(54,951)	(46,417)	(48,784)	**(54,074)**
Other revenues	68,439	20,444	120,326	198,769	**102,858**
Zakat	(31,112)	(26,600)	(28,584)	(20,000)	**(138,038)**
Net profit prior to non-controlling equity	273,306	378,822	301,302	722,050	**250,824**
Other comprehensive income loss	-	-	-	(3,076)	**(28,103)**
Comprehensive income total for the year	273.3	378.8	301.3	719.0	**222.7**
Net non-controlling equity share	(247)	856	1,415	(2,367)	**(9,799)**
Net income due to shareholders of the parent company	273,059	379,678	302,717	716,607	**212,922**
Earnings per share (SAR)	0.32	0.45	0.36	0.85	**0.28**

2016 and 2017 are based on International Financial Reporting Standards (IFRS).

The Company has adopted the International Financial Reporting Standards (IFRS) effective January 1, 2017. Accordingly, some changes/ reclassifications in the consolidated financial statements have been made for the current and comparative periods in accordance with the accounting policies adopted in conformity with IFRS as issued by the IASB and endorsed in the Kingdom of Saudi Arabia together with other standards and pronouncements that are issued by the SOCPA. For further details, please refer to Note 6 (First time adoption of IFRS) to the attached consolidated financial statements for the year ended 31 Dec 2017. And the decrease in net profit is mainly attributed to the following: 1- Change in infrastructure cost estimate of industrial land and residential projects resulted in increased gross profit in the comparative period, 2- Increase in depreciation charge due to increase in capitalization of infrastructure assets, 3- Increase in financial charges due to increase in loans balance, 4- Compensation received based on the courts decision, during previous year, in respect of cancellation of development lease agreement by a customer, thereby resulting in an increased net profit in that year, 5- Decrease in selling, marketing, general and administrative expenses as compared to 2016 due to rationalized spending strategies, 6- Increase in share of income from joint venture in the current year as compared to the previous one.

B. Transitional balance sheet as on December 31 for the years from 2013 to 2017

	2013 SR '000	2014 SR '000	2015 SR '000	2016 SR '000	2017 SR '000
Current assets	4,443,358	4,382,678	4,848,119	4,326,601	**4,608,790**
Non-circulating assets	9,903,093	11,823,454	13,189,541	12,242,888	**12,686,851**
Total assets	**14,346,451**	**16,206,132**	**18,037,660**	**16,569,489**	**17,295,641**
Current liabilities	685,665	1,636,953	889,962	1,164,369	**1,797,052**
Non-current liabilities	5,824,220	6,353,786	8,631,003	7,620,721	**7,491,469**
Shareholders' equity	7,836,566	8,215,393	8,516,695	7,784,399	**8,007,120**
Total liabilities and shareholders' equity	**14,346,451**	**16,206,132**	**18,037,660**	**16,569,489**	**17,295,641**

2016 and 2017 are based on International Financial Reporting Standards (IFRS).

C. Operating results for the year ending December 31, 2017 compared to 2016

	2017 SR '000	2016 SR '000	Changes SR '000	% of change
Revenue	1,437,976	2,267,771	(829,795)	(36.60%)
Revenue cost	(615,622)	(1,093,607)	(477,985)	(43.70%)
Total operating profit	**822,354**	**1,174,164**	**(351,810)**	**(30%)**
Major business expenses	(529,691)	(598,266)	(68,575)	(11.50%)
Profit on main operations	**292,663**	**575,898**	**(283,235)**	**(49%)**

D. Due payments for the 12 months ending on December 31 2017 compared to 2016

	2016 SR '000	2017 SR '000
Zakat	20,944	**6,345**
GOSI	13,149	**5,669**
Government charges (visas, exits and re-entry, work permits)	1,483	**905**
Economic Cities Authority fees	7,500	**7,500**
Government fees paid to Economic Cities Authority, including permits	4,756	**1,763**

Dividend Distribution Policy

The Company's annual net profits are distributed as follows:

1. 10% of the net profits shall be set aside towards the formation of the Company's statutory reserve. The Ordinary General Assembly may stop this when the stated reserve reaches 30% of the paid capital.
2. The Ordinary General Assembly, based on the proposal of the Board, may set aside a percentage not exceeding 10% of net profits towards the formation of agreed-on reserve allocated to specific purpose(s).
3. The Ordinary General Assembly can decide on the formation of other reserves in the amount that achieves the Company's benefits or guarantees the distribution of the most possible stable profits to shareholders. The General Assembly can also deduct from the net profits certain amounts to establish social organizations for the Company's staff or to help what is already established of these organizations.
4. The General Assembly, based on the recommendation of the Board of Directors, can distribute from the remaining amount an amount net less than 5% of the Company's paid capital to the shareholders.
5. An amount not exceeding 10% of the remaining amount shall be allocated as remuneration to the Board members, on the basis that this remuneration must be in balance with the number of meetings attended by the members.

Dividend Distribution Policy continued

6. The Company can distribute transitional dividends to its shareholders semi-annually or quarterly after abiding by the requirements and regulatory instructions in this regard.

The Company expects to distribute dividends in the coming years, after setting the foundations of KAEC, and the Company's revenues and dividends become clearer.

Loans

Total loans of the Company and its subsidiaries for the year ending December 31, 2017 were SR 8 billion.
The Company signed the following financing mandates, as per the date of the budget:

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. It was originally repayable, with a three-year grace period, in seven annual instalments commencing from 1 June 2015. However, based on the Group's request submitted before the due date, the MoF, during September 2015, has rescheduled the loan by extending the grace period for an additional period of five years. The principal amount is now repayable in seven annual installments, commencing from June 2020, with accrued commission payable on an annual basis.

(b) During 2014, the Parent Company signed an Islamic facility agreement with a commercial bank for SR 2,000 million Murabaha liquidity finance facility that carries commission at commercial rates. The outstanding balance of the long term loan, as at 31 December 2017, amounted to SR 1,500 million (31 December 2016: SR 1,500 million). As per the terms of the agreement, the loan is repayable in eight bi-annual installments from 30 June 2018 to 31 December 2021. The installment due within twelve-month, amounting to SR 550 million is classified as a current liability. The loan is secured against part of KAEC's greenfield land, having a value of SR 3,002 million, held by the Parent Company and an order note for SR 2,500 million.

c) During 2015, the Parent Company signed an Islamic facility agreement with a commercial bank for SR 1,000 million that carries commission at commercial rates. The outstanding balance of the long term loan, as at 31 December 2017, amounted to SR 500 million (31 December 2016: SR Nil). As per the terms of the agreement, the loan is repayable in eight bi-annual installments from 20 October 2019 to 20 April 2023. The loan is secured against part of KAEC's greenfield land, held by the Parent Company, for a total required value of SR 1,500 million, out of which 56% has already been perfected and the remaining is in progress. The subject loan is further secured by an order note of SR 1,200 million.

d) During 2014 and 2015, the Company signed two facility agreements with a commercial bank for SR 1,000 million each carrying commission at prevailing commercial rates. The outstanding balance of the loan, as at 31 December 2017, amounted to SR 1,000 million (31 December 2016: SR 1,000 million). As per the terms of the agreements, the loan terms are door to door 8 years with 3 years grace period starting from respective dates of the agreements. In order to comply with the Sharia principles, an additional facility of SR 250 million has been arranged by the bank linked to each of the facility, to permit the rollover (repayment and drawdown) so that the principal amount is available to the Company for the first 3 years of the loan. The installment due within twelve-month, amounting to SR 100 million is classified as a current liability. The loan facilities are secured against part of KAEC's greenfield land for a total required value of SR 3,000 million, out of which 50% has already been perfected and remaining is in progress. Moreover, the subject loan facilities are further secured by an order note of SR 1,250 million each.

The amount of commission paid on the loans during 2016 reached SR 54 million.

Board of Directors

Board Membership

According to Article 17 of the Company's bylaws, the number of Board members is nine, which complies with Clause 1 of Article 68 the corporate governance regulations issued by the Ministry of Commerce and Investment. Accordingly, a Board of Directors was elected for the new three-year term commencing on September 26, 2017.

All members are non-executive and independent (except for the Managing Director and CEO. Below are the Board members and their membership category according to corporate governance regulations issued by the Capital Markets Authority, in addition to the shareholding companies in which they still hold membership.

Members	Independent/ Executive/ Non-executive	Educational Qualifications	Directorships in other Saudi shareholding companies
H.E. Mohamed Alabbar Chairman	Non-Executive	Bachelor's in Finance and Business Administration, Seattle University. Honorary Doctorate, Seattle University.	Chairman of the Board of Directors of Emaar Real Estate Group and Emaar Malls, Emaar Middle East, Board Member, National Bank of Dubai, Chairman of Dubai Cable Company, Chairman of Amlak Finance Company, Vice Chairman of Dubai World Trade Center, Vice Chairman of Dubai Aluminum Company, Chairman and Founder of Dubai Financial Market.
Mr. Abdullah Kamel Vice Chairman	Non-Executive	Bachelor's in Economics, University of California.	Aseer Company for Trading Tourism Industrial Agricultural Real Estate & Contracting, Amlak International for Property Financing*, Umm Al Qura Development and Construction*, Durrat Arriyadh Real Estate Development (manager), National Real Estate Development Company (manager), Food Manufacturers Company (manager), New Nahj Company (manager), Kawamel Trading & Contracting (manager), Namariq Arabian Services Company (manager), Makaseb Read Estate Company (manager), Sukuk Regional Investment Company (manager), Bayt Al Tawfeeq Development Company (manager), Dallah Albaraka Holding (manager), Al Khawatem for Trading and Contracting Company (manager), Al Tilal Regional Investment Company (manager), Al Mawajed International for Real Estate Development (manager), Al Ostool Al Arabia for Real Estate Development Company (manager), Al Nusrah Development and Real Estate International Company (manager).
H.E. Khalid Al Molhem Member	Independent	BSc in Electrical Engineering, BSc in Engineering Management.	Aseer Company for Trading Tourism Industrial Agricultural Real Estate & Contracting, Saudi British Bank, Knowledge City, Riyadh Cement*, Port Development Company *, Former General Manager of Saudi Airlines, Former President of STC
Mr. Abdulrahman Alrowaita Member	Non-Executive	Bachelor's in Industrial Engineering.	Aseer Company for Trading Tourism Industrial Agricultural Real Estate & Contracting, Halwani Brothers, Research & Marketing Company, Jadwa Investment*, Amlak International for Property Development, Alessa Industries Company*, Wilayah Investment Company*
Mr. Ahmed Jawa Member	Non-Executive	BA and MBA, University of San Francisco.	Emaar Real Estate Group, Ras Al Khaimah Petroleum Company, Al Salam Bank
Mr. Mohamed Naghi ** Member	Non-Executive		None
Mr. Fahd Al-Rasheed Joining Member	Executive	Bachelor's in Business Administration, University of Washington. MBA, Stanford University.	Saudi Airlines Catering, Ports Development Company*, Petromin Oils*, Emaar Knowledge Company
Dr. Faisal Al-Mubarak ** Member	Independent		Emaar Real Estate Group, Emaar Knowledge Company*
Mr. Abdullah Taibah Member	Independent	Bachelor's in Electrical Engineering, King Fahd University of Petroleum and Minerals.	Saudi Airlines Catering, Alessa Industries Company*
H.E. Saud Al Saleh***	Independent	Master's in Economics, University of Rhode Island. Bachelor's of Business Administration, Portland State University.	Maad International, Al Baraka Financial Group, Gulf Company for Residential Complexes, Chairman of the Board of Trustees of Riyadh Economic Forum, Secretary General of the Supreme Economic Council at the rank of Minister
Mr. Jamal Bin Theniyeh*** Member	Non-Executive	Bachelor's in Administration, UAE University.	Emaar Real Estate Group

* Unlisted company.
** Member left the Board by the end of the third cycle on September 25, 2017.
*** New member joined the board in its fourth cycle on September 26, 2017.

Board of Directors continued

Board meetings in 2017

The Board of Directors held four meetings during 2017

	13/03/2017	24/04/2017	25/09/2017	11/12/2017
H.E. Mohamed Alabbar	✓	✓	✓	✓
Mr. Abdullah Kamel	✓	✓	✓	x
H.E. Khalid Al Molhem	✓	✓	x	x
Mr. Abdulrahman Alrowaita	✓	✓	x	✓
Mr. Ahmed Jawa	✓	x	✓	✓
Mr. Mohamed Naghi	✓	✓	x	–
Mr. Fahd Al-Rasheed	✓	✓	✓	✓
Dr. Faisal Al-Mubarak	✓	x	✓	–
Mr. Abdullah Taibah	✓	✓	✓	✓
H.E. Saud Al Saleh	–	–	–	x
Mr. Jamal Bin Theniyeh	–	–	–	✓

✓ Attended the meeting X Did not attend the meeting – Was not a Member of the Board

The General Assembly held three meetings in 2017, as follows:

	24/04/2017 5th Extraordinary Assembly	25/09/2017 13th Ordinary Assembly	21/12/2017 14th Ordinary Assembly
H.E. Mohamed Alabbar	✓	✓	x
Mr. Abdullah Kamel	x	✓	x
H.E. Khalid Al Molhem	✓	x	x
Mr. Abdulrahman Alrowaita	✓	x	x
Mr. Ahmed Jawa	x	✓	x
Mr. Mohamed Naghi	✓	x	–
Mr. Fahd Al-Rasheed	✓	✓	✓
Dr. Faisal Al-Mubarak	x	x	–
Mr. Abdullah Taibah	✓	✓	x
H.E. Saud Al Saleh	–	–	x
Mr. Jamal Bin Theniyeh	–	–	x

✓ Attended the meeting X Did not attend the meeting – Was not a Member of the Board

Board Committees

As part of the Company's governance, the following three main committees are selected from the Board of Directors: the Executive Committee, the Audit Committee, and the Nominations and Remuneration Committee.

Executive Committee

The Executive Committee is made up of four members and is granted its powers by the Board of Directors which assigned it with several responsibilities, including: supervision of the execution of the Company's overall strategy, setting the Company's budget, monitoring the Company's operational and financial performance and reporting to the Board of Directors about financial and strategic affairs, in addition to all related matters.

The Committee was reformed in 2017, comprising the following members:

Name	Position
Mr. Abdulrahman Alrowaita	Chairman
H.E. Khalid Al Molhem	Member
Mr. Fahd Al-Rasheed	Member
Mr. Abdullah Taibah	Member

The Committee held four meetings during 2017, as follows:

	12/02/2017	13/03/2017	24/04/2017	05/10/2017
Mr. Abdulrahman Alrowaita	✓	✓	✓	✓
H.E. Khalid Al Molhem	✓	✓	✓	✓
Mr. Fahd Al-Rasheed	✓	✓	✓	✓
Mr. Abdullah Taibah	✓	✓	✓	✓

Audit Committee

The Audit Committee consists of at least three members and the number must not exceed five members, from the shareholders or others, taking into consideration the following conditions:

- The Committee must have at least one independent member.
- Not to include any of the Executive Board members.
- The Chairman of the Board must not be a member.
- The Chairman of the Audit Committee must be an independent member.
- Among its members there must be one specialized in finance and accounting.
- It is not allowed for those who work or had worked during the last two years in the executive or financial management of the Company, or with the auditing company, to be part of the Audit Committee.
- The Committee must collectively have enough experience in businesses and deep knowledge of the Company's finance and accounting policies and procedures.
- If a member's seat is vacated, for any reason, the Board of Directors can appoint a temporary member who replaces the previous member to continue the period of the previous member, and this appointment must be presented to the General Assembly in its first meeting. All concerned parties are notified of this appointment as per prevailing regulations.

Board of Directors continued

The Audit Committee specializes in monitoring the Company's businesses and confirming the integrity and correctness of financial reports and statements and internal auditing systems. The responsibilities of the Committee include specifically:

Financial reports
- Studying initial and annual financial statements of the Company before being submitted to the Board of Directors, offering their opinion and recommendations to guarantee integrity, fairness, and transparency.
- Offering technical opinion – based on the Board of Directors' request – if the Board's report and Company's financial statements are fair, balanced, understood, and include the information that will allow shareholders and investors to evaluate the financial status of the Company along with its performance, business model, and strategy.
- Studying any important or unusual matters included in the financial reports.
- Detailed discussion about any issues raised by the financial manager or compliance officer in the Company or accounts auditor.
- Verifying accounting evaluations adopted in critical matters mentioned in financial reports.
- Studying the accounting policies followed by the Company, offering opinion about them and raising recommendations to the Board.

Internal audit
- Studying and reviewing internal and financial audit regulations and risk management in the Company.
- Studying the internal audit reports and following the execution of corrective measures related to notes mentioned therein.
- Auditing and monitoring the performance and activities of the Internal Audit department in the Company and reviewing its efficiency, confirming its compliance with international standards in relation to internal audit and business ethics. The Audit Committee must also verify the availability of suitable resources to allow the Internal Audit department to perform its responsibilities efficiently, and review and approve the budget allocated to this department.
- Recommending to the Board to appoint/exempt the Head of Internal Audit or the Internal Auditor, and define his remuneration, in consultation with the Remuneration and Nomination Committee.
- Verify the independence of the Internal Audit department.

Auditor
- Evaluate the suitability of the accounting firm as auditors, and recommend its appointment to the Board of Directors, appointing it or reappointing it for the coming year, defining its fees as per the negotiations of the Company's executive management, or exempting it from its duties.
- Verifying that the auditor is not offering other technical, managerial, or consultancy services to the Company which are not within the scope of auditing and offering its views in this regard.
- Reviewing the plan of the auditor and its businesses, studying its reports and notes on the financial statements, verifying the answers of the executive management on these notes, following up on what was done in this regard and verifying no difficulties were faced by the auditor with the Company's management while performing his duties.
- Studying the effect of any change in accounting international standards or any changes in the regulations on the Company's financial statements and its accounting policies.
- Meeting on a regular basis with the auditor and answering its enquiries and questions.
- Verifying the independency of the auditor, its objectivity, equity, and the efficiency of the auditing work, taking into consideration the related regulations and standards.

Compliance guarantee
- Reviewing the Company's reports presented to the regulatory parties, which include the financial statements and data, and verifying that the information mentioned in these reports are in compliance with the adopted financial statements.
- Reviewing the results or reports by the monitoring parties and verifying that the Company is taking the necessary actions in this regard.
- Verifying the compliance of the Company with the regulations, schedules, policies and instructions related to this matter.
- Reviewing contracts and transactions suggested for the Company to take with concerned parties, and offering its views in this regard to the Board of Directors.
- Raising to the Board of Directors any matters that it sees necessary to take action about, and offering its recommendations about procedures that need to be taken.
- Reviewing the results of internal investigations about any doubts of forgery or overriding any laws, regulations, or instructions, which have or might have a material effect on the operational results of the Company or its financial position. The Committee must discuss these results with the auditor and raise its recommendations related to this matter promptly to the Board of Directors.
- Verifying the presence of a strong structure for corporate governance, and that good management practices, guiding financial policies, principles, and other material are known enough and available for all those who want them.

Evaluating the internal control

The Committee annually reviews the extent of efficiency of the Company's internal control, which includes the operational criteria, compliance criteria, and risk management, and evaluate adherence to these.

- The Committee also raised a report on efficiency of this system and included all other jobs performed which fall within its responsibilities. This report was presented during the Ordinary Annual Assembly.
- The Committee discusses the efficiency of the internal auditing system of the Company with the auditor and internal auditor. This system was designed to offer guarantees to confirm:
  - Security, integrity, and availability of detailed information.
  - Efficiency of operations.
  - Protection of assets.
  - Compliance with regulations, rules, policies, procedures, contracts, and the Company's business ethics
- The Committee, along with the executive management, reviews the important financial and business risks and analyzes the suitability of the operations, mechanisms, regulations, and business resumption plans to guarantee the continuity of business and the efficiency of the Company's operations.

Other duties
- Reviewing the support provided by the executive management to the internal auditors and external auditor, and identifying no constraints were placed on them while performing their duties.
- Raising a report to the Board of Directors about the tasks performed by the committee which are within the scope of its specialization.
- Taking into consideration any other matters that the Board of Directors might ask from the committee.
- The Audit Committee can ask the external auditor or internal auditor to review and audit certain matters, and it can meet with any one of the parties to discuss any subjects that the committee or the auditors believe necessary, specifically without the presence of a representative of the executive management.

Board of Directors continued

Audit Committee continued

Committee members as of September 25, 2017

Name	Position
H.E. Khalid Al Molhem	Chairman
Dr. Faisal Al-Mubarak	Member
Mr. Alaa Al-Jabri	Member from outside the board of directors

The following table shows the committee members approved by the General Assembly on December 21, 2017:

Name	Position
H.E. Saud Al Saleh	Chairman
Dr. Faisal Al-Mubarak	Member from outside the Board of Directors
Mr. Alaa Al-Jabri	Member from outside the Board of Directors

The Committee held three meetings during 2017, as follows:

	13/03/2017	23/04/2017	11/12/2017
H.E. Khalid Al Molhem	x	✓	–
Dr. Faisal Al-Mubarak	✓	✓	✓
Mr. Alaa Al-Jabri	✓	✓	✓
H.E. Saud Al Saleh	–	–	x

✓ Attended the meeting X Did not attend the meeting – Was not a Member of the Board

Declaration

The Committee declares that it had reviewed and approved the quarterly and closing statements for 2017 before submitting them to the board of directors.

Remuneration and Nomination Committee

The Committee consists of three members, taking into consideration the following conditions:

- The Chairman of the Committee must be from the independent members and is appointed by the committee members during the first meeting it holds after its formation.
- Members of the Committee are appointed in a way that guarantees the availability of varied skills and experiences, taking into consideration the suitable experiences for the field of work of the Company.
- The Chairman and members of the Committee must adhere to the principles of fidelity, integrity, and loyalty and take care of the Company's and shareholders' interests and put these ahead of their own.
- The Company must notify the authority about the names of the committee members and their positions within five working days from the date of their appointment and about any changes that occur on that within five working days from the date of these changes.
- The Committee membership ends by the end if its period, or the end of the member's eligibility according to any laws or regulations or instructions applicable in the Kingdom. It is also allowed for the Board to isolate all committee members or part of them at any time, and the committee member is allowed to resign from the Committee's membership.
- The Chairman of the Committee or any of its members he appoints must attend the general assemblies to answer the shareholders' questions.

Responsibilities and duties of the Remuneration and Nomination Committee

The Committee is responsible for studying topics related to it or which are transferred to it by the Board of Directors. It then raises its recommendations to the Board to take the necessary decisions, or takes the decisions itself if the Board authorized it to do so.

The Committee is specialized in:

Remuneration

- Developing a clear policy regarding remuneration for Board members and committees emerging from the Board and executive management, raising it to the Board to study in preparation for adoption by the General Assembly, taking into consideration that this policy must follow the standards relating to performance and disclosure. The committee must also confirm its execution.
- Clarifying the relationship between the remuneration offered and the remuneration policy used, and showing any major deviation from this policy.
- Regular review of the remuneration policy, evaluating its effectiveness in achieving the expected objectives.
- Recommending to the Board the members' remunerations and those of committee members and senior executives based on the followed policy.
- Reviewing the financial remuneration of the CEO, including long and short-term incentives, in addition to setting the limit of results expected to be achieved by the CEO, and presenting recommendations on this to the Board.
- Reviewing the CEO's recommendations on financial remuneration for senior executives and approving them.
- Confirming the adherence of the Company and if it took into consideration what was mentioned in the remuneration policy for Board members, committee members, and executive management, as adopted by the shareholders' General Assembly.

Nominations

- Recommending clear policies and standards for membership of the Board and executive management.
- Recommending nomination of members to the Board and rewarding them according to the adopted policies and standards, taking into consideration not to nominate any person previously convicted of the crime of breach of trust.
- Preparing a description of the capabilities and qualifications required for Board membership and executive management positions.
- Defining the time that the member is to allocate for the Board's work.
- Annual review of the necessary skills and experience for Board membership and executive management positions, in addition to defining the weaknesses and strengths of the Board and executive management and recommending solutions according to the Company's interests.
- Reviewing the structure of the Board and executive management structure and recommending any changes.
- Annual verification of the status of independent members, and that no conflict of interests exists if the member is on the board of another company.
- Setting job descriptions for the executive and non executive members, independent members, and senior executives.

Board of Directors continued

Remuneration and Nomination Committee continued

- Setting special procedures in the case of vacancy of a Board member's position among senior executives.
- Providing the appropriate level of training and orientation for new Board members about the Company's mission and its achievements so that they can perform their duties with the required efficiency.
- Studying and reviewing the performance of the executive management.
- Studying and reviewing the management succession plans for the Company in general, and for the Board, CEO, and senior executives.

Remuneration and Nomination Committee powers

- The Committee has the right to investigate any matter within its duties, or any specific topic requested by the Board.
- The Committee has the right to inspect the Company's books and documents.
- The Committee may request any clarification or data from Board members, executive management, or Company employees for investigative matters or enquiry for information.
- The Committee the right to obtain legal or technical consultation from any external party or other independent consulting entity whenever necessary to help the committee perform its duties, taking into account that this must be included in the committee's meeting record.
- The Committee has the right to invite any of the executive management members to attend a certain meeting and provide specific information, taking into account that this must be included in the committee's meeting record.

Committee members as at September 25, 2017

Name	Position
Mr. Ahmed Jawa	Chairman
Mr. Mohamed Naghi	Member
Mr. Abdullah Taibah	Member

At the beginning of the fourth cycle of the Board of Directors on September 26, 2017, the Board formed the Remuneration and Nomination Committee for its entire management period of three years ending on September 25, 2020, comprising:

Name	Position
Mr. Abdullah Taibah	Chairman
Mr. Ahmed Jawa	Member
Mr. Jamal Bin Theniyeh	Member

The Committee held one meeting during 2017, as follows:

	19/04/2017
Mr. Ahmed Jawa	✓
Mr. Mohamed Naghi	x
Mr. Abdullah Taibah	✓

Shares held by Board members, their spouses and children

Member	Shares held on 1/1/2017	Shares held on 31/12/2017	Ownership of first degree relatives	Change from 1/1/2017 to 31/12/2017
H.E. Mohamed Alabbar	10,000,000	10,000,000	None	Zero
Mr. Abdullah Kamel	1,000	1,000	None	Zero
H.E. Khalid Al Molhem	10,153	10,153	None	Zero
Mr. Abdulrahman Alrowaita	125,000	125,000	None	Zero
Mr. Ahmed Jawa	1,000	1,000	None	Zero
Mr. Mohamed Naghi*	5,781,915	–	–	–
H.E. Saud Al Saleh**		1,000	None	1,000
Mr. Fahd Al-Rasheed	204,000	14,000	None	–190,000
Dr. Faisal Al-Mubarak*	3,000	–	–	–
Mr. Jamal Bin Theniyeh**		4,000	None	4,000
Mr. Abdullah Taibah	1,000	1,000	None	Zero

* Left the Board on September 25, 2017.
** Joined the Board on September 26, 2017.

Mr. Abdullah Kamel (Vice Chairman of the Board) owns interest (right to vote) in each of the following: Dayim Real Estate, Aseer Commerce and Tourism, Makaseb International, Al Samaha Commercial, Al Khawatem Trading and Contracting, and these are companies that own different shares in the stocks of Emaar, The Economic City.

He also has full control of the following companies: Kawamel for Trading and Construction, Al Qawafel International, Al Omran International for Property Management, and Namarq International Trading, which own different shares in the stocks of Emaar, The Economic City. The total share of these companies is 212,900,000 stocks of Emaar, The Economic City.

Shares held by senior executives, their spouses and children

Member	Position	Shares held on 1/1/2017	Shares held on 31/12/2017	Ownership of first degree relatives	Change from 1/1/2017 to 31/12/2017
Mr. Fahd Al-Rasheed	Managing Director and Group CEO	204,000	14,000	None	–190,000
Mr. Ahmed Lenjawy	Deputy Chief Executive	None	None	None	Zero
Mr. Rayan Qutub*	Chief Executive of Industrial Area Operations	None	None	None	Zero
Mr. Ramzi Solh	CEO, Commercial Development Operations	None	None	None	Zero
Mr. Faisal Faruqi	Chief Finance Officer	None	None	None	Zero
Eng. Charles Biele	CEO, Development of Residential Properties	None	None	None	Zero
Dr. Essam Sembawa**	Board Secretary	1	850	None	849
Mr. Karim Mourad	Board Secretary	None	None	None	None

* Left the Company in December 17, 2017.
** Left the position in December 12, 2017.
*** Appointed in December 12, 2017.

Board of Directors continued

Major shareholders

Shareholder	Shares owned	Percentage
Dayem Modern Company	150,000,000	17.65%
MI Royal Capital Company	80,000,000	9.4%
Emaar Middle East Company	50,000,000	5.9%
MI Holdings Company	50,000,000	5.9%
MI Strategic Investments Company	50,000,000	5.9%
MI Partners Company	46,000,000	5.4%

Annual assessment of the Board of Directors

In 2017, in line with governance principles, the Company conducted an evaluation of the performance of the Board of Directors, with the Board's secretary preparing an evaluation through which the members identify the strengths and weaknesses of the Board according to governance requirements.

The evaluation was done through a survey that included several questions related to the Board's performance and the individual performance of each of its members and completed by all members. The survey is currently undergoing the necessary analysis to present the results to the Remuneration and Nominations Committee, aiming to continue developing the governance practices in the Company in line with the best international practices. Based on these results, training programs will be developed for Board members as needed.

Related Parties Transactions

In 2017, some transactions were made with related parties. In such transactions, the company follows the same conditions and commercial practices followed with third parties, without any details. The related parties include the board members of Emaar the Economic City (EEC) and senior executives or any of their relatives of first and second grades.

The related transactions which require the approval of the general assembly and license shall be presented to the assembly according to the provisions of Companies Law.

The below table shows the total processes carried out with related parties in 2017, as per the audited annual financial statements of the group, amounting to a total of SR 38,918,933 (thirty-eight million, nine hundred and eighteen thousand, nine hundred and thirty-three Saudi Riyals).

Type of Contract	Contractors	Reason for classification – related party	Duration of the contract	Amount SR 2017	Comments
Rent of adminis-trative buildings and apartments	Ports Development Company	Board Members: - H.E. Khalid Al Molhem - Mr. Fahd Al-Rasheed	One year renewable	2,619,380	Transactions amount in 2017 includes the rent, and service and utilities invoices for the administrative and residential building.
Rent industrial land and services	Dallah Albaraka Holding Company	Board Member: Mr. Abdullah Kamel	25 years	1,771,615	Transactions amount in 2017 includes the rent and service invoices.
Rent industrial land and services	Saudi Airlines Catering	Board Members: - Mr. Fahd Al-Rasheed - Mr. Abdullah Taibah	20 years	1,020,404	Transactions amount in 2017 includes the rent and service invoices.
Rent industrial land and services	Petromin Lubricants	Board Member: Mr. Fahd Al-Rasheed	20 years	1,096,025	Transactions amount in 2017 includes the rent and service invoices. The contract was signed two years ago but was with the Red Sea Company and was transferred in 2016 to Petromin Lubricant Company
Rent industrial land and services	Namariq Arabian Services Co. Ltd.	The board director, Mr. Mohamed Naghi, owns a share in which of 80%	15 years	710,033	Transactions amount in 2017 includes the rent and service invoices.
Industrial land	Cigalah Commercial Establishment	The company is owned by the brother of the Board of Directors of Emaar Company, Mr. Mohamed Naghi.	3 years	110,922	Transactions amount in 2017 includes the service invoices.
Industrial land	Cigalah Medicine Warehouse	The company is owned by the brother of the Board of Directors of Emaar Company, Mr. Mohamed Naghi.	3 years	219,537	Transactions amount in 2017 includes the service invoices.
Rent industrial land and services	Cigalah Pharma Pharmaceu-tical Factory (Branch)	The company is owned by the brother of the Board of Directors of Emaar Company, Mr. Mohamed Naghi.	20 years + Expenses as per usage	431,112	Transactions amount in 2017 is the consideration of service and utilities connection plus a part attributed to the rent of an industrial land.
Implementation of infrastructure works	Arab Co. For Spare Parts & Maintenance	Where the board member Mr. Mohamed Naghi has an 80% share.	18 months	21,400,333	Transactions amount in 2017 is the advance payment as per the contract.
Consulting Services – project management	Turner Construction Company	Emaar Properties, headed by H.E. Mohamed Alabbar (Chairman of Emaar EC), owns a significant share of Turner Capital.	Yearly	1,505,561	Transactions amount in 2017 includes overdue invoices for the previous years. The assembly approval is taken on an annual basis.
Rent a shop	SABB	Board Members: H.E. Khalid Al Molhem	5 years	193,712	Transactions amount in 2017 is the service fees.
Rent a shop	Lina Food	Lina Company is owned by the daughter of a member of the Board of Directors H.E. Khalid Al Molhem	5 years	11,078	Transactions amount in 2017 is the rent and service fees.
Management and operation of the Hotel Bay La Sun	Al Khozama	Board Member: Mr. Abdulrahman Alrowaita	10 years	2,790,876	Transactions amount in 2017 is for administrative, marketing and incentive fees as per the contract.
Services – industrial land	Halwani Bros.	Board Member: Mr. Abdulrahman Alrowaita	Yearly	4,664,390	Transactions amount in 2017 is the service fees.
Rental of commercial premises	Okaz Organization for Press and Publication	Board Member: Mr. Abdullah Kamel	5 yearly	373,950	Transactions amount in 2017 is the rent and service fees.

Board of Directors' Remuneration

The Company's bylaws showed the specific remuneration allocated to Board members, in addition to the remunerations policy for Board members and senior executives that was adopted by the Ordinary General Assembly. This policy states that the Remuneration and Nominations Committee must recommend to the Board of Directors the remunerations of Board and committee members and those of senior executives. Based on this policy, the Company is committed to consider:

- Adherence to the Company's strategy and objectives.
- Remunerate in order to encourage Board members and executive management to make the Company successful and achieve long-term development, linking the variable part of remunerations with long-term performance.
- Base remunerations on job level, duties, and responsibilities of the member, in addition to educational qualifications, experience, skills, and performance level.
- Harmonize with the size, nature, and risk level at the Company.
- Take into consideration other companies' practices in allocating remuneration, avoiding what might result from this as a non-justifiable increase in remuneration and compensation.
- Target attracting skilled and qualified people, their retention and encouragement, without over exaggerating this.
- Be prepared to coordinate with the Remuneration and Nominations Committee when making new appointments.
- Consider conditions to hold or reverse a remuneration if discovered that it was based on non-accurate information presented by a Member of the Board of Directors or executive management. This is to prohibit the misuse of job status to receive undeserved remuneration.

Based on Article 21 of the Company's bylaws and Article 76 of the companies' regulations list, the remuneration of Board members is in the form of a certain amount of money or an allowance for attending meetings, or tangible benefits, or a specific percentage of the net profits. It is permitted to combine two or more of these benefits, in accordance with the companies' regulations list, corporate governance regulations, and regulations and standards set by the Capital Market Authority in this regard and based on the following regulations:

- If the Board members' remuneration was a percentage of net profits, then according to Article 47 of the Company's bylaws and Article 76 of the companies' regulations list, the remuneration of Board members must not exceed ten percent (10%) of the remaining net profits after deducting the approved reserves and distribution of dividends on shareholders in a percentage of not less than five percent (5%) of the paid-up capital.
- Differences in the remuneration of Board members are allowed, reflecting the experience of the member and his specialization, duties, responsibilities, independence, number of meetings attended and other considerations.
- The remuneration of independent Board members must not be a percentage of profits achieved by the Company or based directly or indirectly on the Company's profitability.

In all cases, the total remuneration and financial or tangible benefits that a Board member receives must not exceed SR 500,000 annually.

The job list of each committee must include the remuneration of its members and the policy of remunerating executive management including:

- Basic salary (paid at the end of the month and on a monthly basis).
- Allowances that include, for example but not limited to, housing, car, telephone and education for children.
- Insurance benefits, including medical, health, life, and accidents.
- Short-term incentive plans related to the performance of the member and the Company, long-term incentive plans such as stock options, and other plans related to retention of staff.
- Other benefits that include, but not limited to, annual leave, annual air tickets, and end of service indemnity.

The Company paid an amount of SR 3,724,726 as salaries and allowances to Board members.

SR '000	Fixed remuneration							Variable remuneration								
	Specific amount	Board meeting attendence fees	Committee meeting attendence fees	Tangible benefits	Technical, administrative and consultancy jobs	Chairman and Managing Director	Total	Percentage of dividends	Regular remuneration	Short-term incentive plans	Long-term incentive plans	Offered shares	Total	End of service	Total	Expenses
Independent members																
H.E. Khalid Al Molhem	350,000	–	131,644	–	–	–	**481,644**	–	–	–	–	–	–	–	**481,644**	–
Mr. Abdullah Taibah	350,000	–	75,000	–	–	–	**425,000**	–	–	–	–	–	–	–	**425,000**	–
Dr. Faisal Al-Mubarak	256,986	–	86,575	–	–	–	**343,561**	–	–	–	–	–	–	–	**343,561**	–
H.E. Saud Al Saleh	93,014	–	19,932	–	–	–	**112,946**	–	–	–	–	–	–	–	**112,946**	–
Total	**1050,000**		**313,151**				**1363,151**								**1363,151**	
Non-executive members																
H.E. Mohamed Alabbar	350,000	–	0,000	–	–	–	**350,000**	–	–	–	–	–	–	–	**350,000**	–
Mr. Abdullah Kamel	350,000	–	0,000	–	–	–	**350,000**	–	–	–	–	–	–	–	**350,000**	–
Mr. Abdulrahman Alrowaita	350,000	–	80,000	–	–	–	**430,000**	–	–	–	–	–	–	–	**430,000**	–
Mr. Ahmed Jawa	350,000	–	20,000	–	–	–	**370,000**	–	–	–	–	–	–	–	**370,000**	–
Mr. Mohamed Naghi	256,986	–	15,000	–	–	–	**271,986**	–	–	–	–	–	–	–	**271,986**	–
Mr. Jamal Bin Theniyeh	93,014	–	0,000	–	–	–	**93,014**	–	–	–	–	–	–	–	**93,014**	–
Total	**1750,000**		**115,000**				**1865,000**								**1865,000**	
Executive member																
Mr. Fahd Al-Rasheed	350,000	–	60,000	–	–	–	**410,000**	–	–	–	–	–	–	–	**410,000**	–
External member																
Mr. Alaa Al-Jabri	0,000		86,575				**86,575**								**86,575**	
Total	**3150,000**		**574,726**				**3724,726**								**3724,726**	

Note: This also includes remuneration of committee members.

Board of Directors' Remuneration continued

Board committee members' remuneration

SR '000	Fixed remuneration (excluding meeting attendance fees)	Meeting attendance fees	Total
Executive Committee members			
Mr. Abdulrahman Alrowaita		60,000	60,000
H.E. Khalid Al Molhem		80,000	80,000
Mr. Fahd Al-Rasheed		60,000	60,000
Mr. Abdullah Taibah		60,000	60,000
Audit Committee members			
H.E. Saud Al Saleh*	14,932	5,000	19,932
H.E. Khalid Al Molhem**	31,644	40,000	71,644
Dr. Faisal Al-Mubarak***	41,575	45,000	86,575
Mr. Alaa Al-Jabri****	41,575	45,000	86,575
Remuneration and Nominations Committee members			
Mr. Abdullah Taibah		15,000	15,000
Mr. Ahmed Jawa		20,000	20,000
Mr. Jamal Bin Theniyeh*****		0,000	0,000
Mr. Mohamed Naghi**		15,000	15,000

* New member joined the Board in its fourth cycle on September 26, 2017. ** Left the committee at the end of the third Board cycle on September 25, 2017.

*** Member of the Board until September 25, 2017 then an external member since September 26, 2017. **** Member from outside the Board. ***** New member joined the Board and committee on September 26, 2017.

Senior Executives' Remuneration

Senior executive positions	Fixed remuneration				Variable remuneration						End of service remuneration	Total remuneration of board executive if available	Total
	Salaries	Allowances	Tangible benefits	Total	Regular remunerations	Profits	Short-term incentive plans	Long-term incentive plans	Offered shares (value entered)	Total			
Total	11,529,912	2,807,671	285,821	14,623,404	–	–	–	3,378,840	–	3,378,840	–	–	18,002,244

Source: Human Resources department

Operating Structure

Considering the Company's expansion and the beginning of activities of affiliated companies mentioned in this report, the Company restructured itself and a CEO and finance manager were appointed for each affiliated company tasked with developing or operating various sectors of KAEC, with the group of companies being run under the umbrella of Emaar, The Economic City independently but in line with the Company's directions and the interests of the city's development.

The Group has also attracted many international and local cadres to participate in the work according to the requirements of the coming phase especially after KAEC became operational and witnessed an increase in development operations. In 2017, the Company organized several training sessions and workshops for its personnel.

Subsidiary Companies

The Company owns shares in seven subsidiary companies:

1. Ports Development Company: A closed joint company based in KAEC, Kingdom of Saudi Arabia, that executes contracts related to managing, developing, maintaining, operating, financing, and investing in King Abdullah Sea Port in addition to offering and executing all necessary services to operate the port and all its facilities. The Port Development Company has a capital of SR 5,210,000,000 distributed over 521 million shares, with Emaar, The Economic City owning 260.5 million shares, which is equivalent to SR 2,605,000,000 and 50% of the Ports Development Company's capital.
2. Economic Cities Investments Holding Company, commercial register No 4602003130, in which Emaar, The Economic City owns 99% of shares and the remaining shares are for a partner. The company's capital is SR 500,000. It is based in KAEC, Kingdom of Saudi Arabia, and is involved in establishing companies or buying shares in existing companies.
3. Industrial Zones Development Company Ltd, commercial register No 4602211995, in which Emaar, The Economic City owns a 1% share and the Economic Cities Investments Holding Company owns 98% of shares, with the remaining shares owned by a partner. It has capital of SR 500,000 and is based in KAEC, Kingdom of Saudi Arabia. It is involved in establishing, managing, operating, and providing services to the industrial areas and cities and areas of warehousing and storage.
4. Economic Cities Real Estate Development Company, commercial register No 4602004969, a limited liability company based in KAEC, Kingdom of Saudi Arabia, with a capital of SR 500,000 in which Emaar, The Economic City owns a 1% share, and Economic Cities Investments Holding Company owns 98% of shares, with the remaining shares owned by a partner. It is involved in owning, buying, investing, selling, developing, marketing, and leasing land, real estate, schools, hospitals, healthcare facilities, sports facilities, and train stations, including the company's own land.
5. Leading Company for the Management of Economic Cities Properties, commercial register No 4602004970, a limited liability company based in KAEC, Kingdom of Saudi Arabia with a capital of SR 500,000, in which Emaar, The Economic City owns a 1% share and Economic Cities Investments Holding Company owns 98% of shares, with the remaining shares owned by a partner. It is involved in establishing, managing, developing, operating, leasing, renting and providing different services to different types of properties, and commercial, residential, and administrative centers in economic cities.
6. Economic Cities Real Estate Management and Operations Company, commercial register No 4602004968, a limited liability company based in KAEC, Kingdom of Saudi Arabia with a capital of SR 500,000 in which Emaar, The Economic City owns a 1% share and the Economic Cities Investments Holding Company owns 98% of shares, with the remaining shares owned by a partner. It is involved in owning, buying, investing, selling, developing, marketing, leasing, and renting land and property for different residential and commercial reasons in economic cities, in addition to establishing and providing different services to different properties including hotels, resorts, facilities, schools, hospitals, and sports facilities in economic cities.
7. Emaar Knowledge Limited, commercial register No 4602006620. A limited liability company based in KAEC, Kingdom of Saudi Arabia with a capital of SR 10 million, in which Emaar, The Economic City owns 96% of shares and the remaining 4% of shares are owned by subsidiary companies. It is dedicated to managing and operating a college specialized in granting bachelor and master degrees in business administration, establishing the buildings of the college, institutes, student center, student dormitories, and faculty housing facilities, in addition to related schools and sports facilities.

Corporate Governance

The Company's bylaws were amended to suit the new companies' bylaws and were adopted by the Extraordinary General Assembly.

The management of Emaar, The Economic City is committed to implementing the principles and rules of good governance and choosing the best practices that serve the interests of its shareholders and protect the rights of the concerned parties. The Company implements all corporate governance regulations issued by the board of the Capital Market Authority under decision no. (8-16-2017) on February 13, 2017, excluding the following sections:

1. Paragraph (c/10) of Article 20 states that the member should be non-independent in case he completed nine consecutive or non-consecutive years of Board membership. The Company recognizes that the presence of the member for this period does not conflict with independence, and that the application of this paragraph can cause damage to the Company's interest.
2. Paragraph (B) of Article 32 states on having four board meetings during the year. The Company sees itself obliged with what was stated in the companies' regulations in terms of holding at least two meetings, but the Company held four meetings during 2017 for the Board of Directors.
3. Articles 70, 71, and 72 related to the formation of a Risk Management Committee. The Company recognizes that the Audit Committee is performing the required duties of this committee.
4. Article 95 which relates to the presence of a Governance Committee. The Company recognizes that the Audit Committee can perform this function completely.

Board of Directors' declarations

- The Company affirms the non-provision of monetary loans of any type to its Board members, or guaranteeing them in any loans with others.
- The Company's Board of Directors, its senior executives, their spouses, and minor children have no right of option of subscription to the shares or debt instruments of the Company or any other company affiliated to Emaar, The Economic City.
- The Company does not have debt instruments convertible to shares, rights of option or subscription rights warrants, or similar rights issued by the Company during the financial year 2017.
- The Company affirms that it did not conclude any agreement with any shareholder or executive or employee by which they ceded their rights to profits.
- The Company affirms that no substantial amendments to its account books were made, and that it abides by the accounting standards issued by the Saudi Organization for Certified Public Accountants. No substantial remarks were made by the certified accountant in relation to the Company's activities, its account books or financial statements for 2017, and the certified accountant had no reservations on these statements.

The Company's Audit Committee examines and evaluates the efficiency of the internal control systems through:

- Studying the financial statements that include the adopted accounting related policies and discussing them with the Company's management and certified accountant.
- The periodic reports and remarks raised by the internal auditor based on the annual auditing plan, and following up on the corrective measures taken by the Company to address these remarks.
- The reports and remarks lodged by the accounts auditor and following up on the corrective measures taken by the Company to address these remarks.
- The different reports that the committee asks the Company's management to provide and which it reviews and discusses during its periodic meetings.

The above-mentioned reports on auditing processes did not show any substantial weakness in the internal control system of the Company as the majority of the remarks related mainly to improving performance, making the work of the different departments and divisions more effective and raising their efficiency, in addition to continuing the documentation of procedures, strengthen the control system, and utilize the resources in the best possible way.

Based on the aforementioned, and taking into consideration that the goals of the internal audit system are:

- Ensuring the account books are appropriately produced adding more accuracy and transparency to the accounting data.
- Protecting assets and properties.
- Maintaining integrity in transactions.
- Improving the Company's performance and the efficient use of its available capacities.
- Abiding by the different rules, regulations, and contracts.

Therefore, the Audit Committee considers the goals of the internal control system as specified by Emaar, The Economic City to be largely realized. The committee also considers that the stance of the Company's management towards internal control is positive, as the majority of activities are governed by written policies and procedures, and the management interacts positively with recommended policies.

In addition to this, the Company had set up various internal committees from the different departments, each according to their relative experience, in order to improve operations, the implementation of practices, and the abidance bylaws governing all public shareholding companies listed on the Saudi Stock Exchange.

- The Company affirms that the Board of Directors had set a written policy that regulates conflicts of interest and settles potential conflicts that all directors, executive management members, and shareholders might face, including the misuse of assets and premises, and misdemeanor resulting from dealing with relevant individuals.
- The Company affirms that it did not receive any statement of interest in shares with voting rights belonging to individuals (other than members of the Board of Directors, senior executives, their spouses and children).
- The Company affirms that there is no recall, buying, or cancellation by the Company of any recoverable debt instruments.
- The Company affirms that there was no issuance of transferable or subscription rights for any debt instruments convertible to shares or any option rights or subscription rights warrants.
- The Company affirms that contracts generating substantial interest to one of the members of the Board of Directors were concluded as mentioned in paragraph seven of the report.
- The Company affirms that no other investments or reserves were established in favor of any of the Company's employees.
- The Company affirms that no corporate body with the right to assign representatives in the Board of Directors by virtue of the Company's bylaws had voted on choosing the other members of the Board of Directors.

Zakat and Government Payments

The Parent Company – Emaar The Economic City

The General Authority of Zakat and Tax ("GAZT") issued Zakat assessments for the years 2006 to 2008 and claimed additional Zakat and withholding tax differences of SR 90.4 million in addition to delay penalty. The case was under review at the Bureau of Grievance ("BOG"). In compliance with the appeal procedures and without admitting the liability, the Company submitted a bank guarantee and paid under protest the withholding tax differences.

The BOG did not accept the grievance on the zakat case from the formal point of view. The Company filed a plea to the Royal court requesting the BOG to reconsider the verdict and restudy the case. The plea was not accepted and filing of another plea is currently under process.

The withholding tax case was also under review at the BOG. A decision was issued supporting the objection related to penalties. Subsequent to the year end, the Company has re-appealed to the BOG in respect of withholding tax differences.

The Company's zakat assessment for the years 2009 to 2011 was cleared. The Company filed the zakat returns for the years 2012 to 2016 and obtained the restricted zakat certificates.

Zakat and Government Payments continued

Subsidiaries

ECIHC has finalized its zakat status up to the year 2012 and filed the zakat returns up to the year 2016. Unrestricted zakat certificates have been obtained up to the year 2016.

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 2016, and obtained the zakat certificates.

REOM and **REM** have filed their zakat returns for the period 2013 to 2016, and obtained unrestricted zakat certificates.

RED has filed its zakat returns for the period 2013 to 2016 and obtained facility letter as there was no revenue from operations.

EKC has filed the zakat return for the first period ended 31 December 2016 and obtained a facility letter as there was no revenue from operation.

Declaration

The Company abides by the zakat regulations as per the General Authority of Zakat and Tax in the Kingdom of Saudi Arabia. It lists the annual due zakat allocations on the net income, and registers the amendments made when effectuating the final zakat assessment – if any – during the relevant period of assessment.

Shareholder Rights and General Assembly

The Company's bylaws and governance regulations included the necessary procedures and precautions to ensure that all shareholders exercise their statutory rights, among which are:

1. The right to receive dividend payments.
2. The right to receive a share of the Company's assets upon liquidation.
3. The right to attend general assemblies, participate in deliberations and vote on decisions.
4. The right to share disposal.
5. The right to monitor the work of the Board of Directors and file responsibility lawsuits against the members of the Board.
6. The right of enquiry and information request in such a way that does not compromise the interests of the Company or contradict the Capital Market laws and its executive regulations.

The Company provided all the information that enabled shareholders to exercise their rights to the fullest, ensuring the provision of complete, accurate, and up to date information in a systematic way and according to the deadlines through the Company's website, Tadawul's website, and news. This was done in application of the information dissemination to shareholders without discrimination.

For its part, the Company held three General Assembly meetings during the financial year 2017, the first the 13th Ordinary General Assembly on September 25 2017; second, the Extraordinary General Assembly on April 24, 2017; and third, an Ordinary General Assembly on December 21, 2017.

We affirm that the Company did not receive from the certified accountant Ernst & Young any request to convene the General Assembly during the financial year ending in 2017 and that was not held. We also affirm that the Company did not receive from shareholders owning 5% or more of the capital a request to convene the General Assembly during the financial year 2017, and that was not held.

The Company had announced the date, venue, and agenda of the Ordinary and Extraordinary General Assembly meetings 10 days in advance and had published a call for a meeting on Tadawul website, in the city's newspaper, and in the official newspaper of Umm Al Qura.

The announcement explained the rules governing the General Assembly meetings and the voting procedures. Shareholders had the opportunity to effectively participate and vote on the agenda items and were also able to discuss the topics included in the agenda and address questions to the Board of Directors and certified accountant, to which they received answers.

It is important to note that no shareholder owning 5% or more of the Company's shares requested to add an item or more to the General Assembly's agenda when it was being prepared.

The Company affirms that it has avoided putting in place any action that might have impeded the exercise of the shareholders of their right to vote, and that it had verified the authorization of non-members of the Board of Directors and non-staff who attended the meeting. Being aware of the importance of communicating with shareholders, the Company continued to:

1. Publish the quarterly and final financial statements for the financial year 2017 on Tadawul's website according to the deadlines set in the bylaws.
2. Be committed to the announcement formulation set by the Capital Market Authority and the required core information to be contained, and the dates of publishing.
3. Produce the Board of Directors' report in accordance with the disclosure requirements and the pilot model created by the Capital Market Authority.
4. Update the Company's website (www.kaec.net) and regularly upload the necessary information on the Company's activities, news, and financial results.
5. The shareholders affairs section of the company continues to communicate with shareholders and receive their proposals and queries and submit them to the Board of Directors.

All shareholders had the opportunity to effectively participate and vote on the agenda items, especially that the Company had continued to use the electronic voting system via the Saudi Stock Exchange (Tadawul).

The Company received 12 registers of the shareholders during 2017 according to the following schedule:

	Request date	Report date	Reason of request
1	29/12/2016	1/1/2017	Companies regulations
2	6/2/2017	6/2/2017	Companies regulations
3	30/3/2017	2/4/2017	Companies regulations
4	19/4/2017	24/4/2017	General Assembly
5	1/6/2017	31/5/2017	Companies regulations
6	16/7/2017	12/7/2017	Companies regulations
7	23/7/2017	20/7/2017	Others
8	10/9/2017	7/9/2017	Companies regulations
9	21/9/2017	20/9/2017	Companies regulations
10	24/9/2017	25/9/2017	General Assembly
11	31/10/2017	30/10/2017	Companies regulations
12	21/12/2017	21/12/2017	General Assembly

Future Risks

As is the case in sizable strategic projects, the construction of a comprehensive city may involve many risks related to the long-term period to finalize the project, and the necessity to adapt to the rapid economic and operational changes that all this implies. Therefore, the Company consults from time to time with experts to ensure the accuracy of assumptions and studies, and to rely on the best practices in carrying out the activities of the Company to guarantee long-term continuity.

The Company specified a general vision of the risks and challenges that it may encounter and which can impact the performance or the KAEC's development programs, the most important being:

- Risks related to the security and safety in the city.
- Decrease in sales due to the slow economic movement in the Kingdom resulting from the decline of oil prices which affected the investment environment in the public and private sectors, and which also affected the ability of current customers to adhere to their financial and investment obligations in KAEC.
- Activating regulations as stated in the regulations of the Economic Cities Authority and many other new or updated specialized regulations.
- Risks related to cyber-attacks that the Kingdom of Saudi Arabia witnessed during the previous period.

In addition to the above mentioned risks, the Company's management is following and monitoring risks of a financial nature represented in:

Commission prices risk

These are risks related to the fluctuation of the fair value or future cash inflows of monetary instruments due to the change of commission prices in the market. The Group's exposure to the risks of changes in commission prices in the market is related to bank deposits on which it pays commission and on loans from the Ministry of Finance and commercial banks.

The Group manages the risk of commission prices by monitoring fluctuations in commission prices of currencies they are registered in, and liabilities and assets that it pays commission on.

Currency risk

These are risks related to the fluctuation of the fair value or future cash inflows of monetary instruments due to the changes in foreign currency exchange. The Group during the year did not conduct any major transactions in currencies other than the Saudi riyal and US dollar. Since the US dollar is linked to the Saudi riyal, the Group was not exposed to any major currency risks.

Credit risk

Risks related to the non-adherence of a party to its commitments, thus causing financial loss to the other party. The Group works on limiting credit risks related to clients through monitoring the current account payables. And according to the sales agreement with clients, the ownership document is transferred to the clients only after receiving the full price. The Group manages its exposure to credit risks in relation to Murabaha deposits at banks through diversification and investing with other parties of good credit rating.

Liquidity risk

Liquidity risks revolve around the Group facing difficulties in having the funds needed to face its commitments and financial obligations. Liquidity risks can arise from the inability to sell a monetary asset fast and in a price that equals its fair value. Liquidity risks are managed through regular monitoring and always confirming that enough funds are available from credit facilities to meet any future obligations. The Group expects it will have enough available funds to pay all due liabilities during 12 months from the end of the year.

The Company monitors and evaluates all these risks and deals with them on an ongoing basis through regular follow-ups and reporting to the board of directors, and through taking the right decisions and directions to offset the effects of these risks or reduce their effect to the accepted levels.

Penalties

The Company received a fine from the Capital Market Authority in the amount of SR 100,000.00 due to the fact that it announced signing two contracts with a related party before taking the approval of the General Assembly on granting the two contracts. This fine was discussed during the Board of Directors' meeting and regulations were set to avoid this being repeated.

Declarations

Emaar, The Economic City declares that:

1. The financial statements were properly produced.
2. The internal audit system was established on a sound basis, and effectively implemented.
3. There is no doubt concerning the ability of Emaar, The Economic City to continue its activities.

May Allah grant us success.

Board of Directors
Emaar, The Economic City

Contents

FINANCIAL REPORT

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Emaar The Economic City – A Saudi Joint Stock Company ('the Company' or 'the Parent Company') and its subsidiaries (collectively referred to as 'the Group'), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants.

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	Why considered most significant	How our audit addressed the key audit matter
First time Adoption of International Financial Reporting Standard (IFRS)	As a result of the regulatory requirement in the Kingdom of Saudi Arabia, effective 1 January 2017, the Group is required to prepare the consolidated financial statements in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") 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"), (referred to as "IFRS as endorsed in KSA"). For all periods up to and including the year ended 31 December 2016, the Group prepared and published its audited consolidated financial statements in accordance with Generally Accepted Accounting Principles (GAAP) issued by SOCPA in KSA (referred to as "SOCPA GAAP"). The consolidated financial statements for the year ended 31 December 2017 are the Group's first financial statements prepared in accordance with IFRS as endorsed in KSA. Accordingly, the Group has applied IFRS as endorsed in KSA for preparation of its consolidated financial statements for the year beginning 1 January 2017, as well as for presenting the relevant comparative period data. In compliance with the requirements of IFRS 1 as endorsed in KSA, the Group's opening statement of consolidated financial position was prepared as at 1 January 2016 after incorporating required adjustments to reflect the transition to IFRS as endorsed in KSA from the previous SOCPA GAAP. The Group has assessed the impact and significant adjustments are made on transitioning from SOCPA GAAP to IFRS as endorsed in KSA in the group consolidated financial statements as at 1 January 2016 and 31 December 2016. We considered this as a key audit matter since the first time adoption of IFRS has significant impact on the consolidated financial statements from the recognition, measurement and disclosure perspective. Refer to notes 2 and 6 to the consolidated financial statements for the details of transition and reconciliation adjustments between SOCPA GAAP and IFRS as endorsed in KSA.	We performed the following procedures in respect of the transition to IFRS as endorsed in KSA: • Assessed the appropriateness of the implementation of IFRS as endorsed in KSA in accordance with the provisions of IFRS 1, as endorsed in the KSA. • Assessed the appropriateness of the accounting policies adopted. • Evaluated the GAAP differences identified by the Group's Management. • Tested the sample of adjustments (including calculation and recording) made to various balances and transactions to bring them in line with IFRS as endorsed in KSA. • Assessed the appropriateness of disclosures made in relation to transition impact from SOCPA GAAP to IFRS as endorsed in KSA. • Assessed the appropriateness of exceptions to retrospective application of other IFRSs as endorsed in KSA and optional exemptions availed by the Group from full retrospective application of certain IFRSs as endorsed in KSA, in preparing the consolidated financial statements.

Report on the Audit of the Consolidated Financial Statements continued

Key Audit Matters continued

Key audit matter	Why considered most significant	How our audit addressed the key audit matter
Revenue recognition	Revenue is an important component of the Group's performance and profitability. The Group has early adopted International Financial Reporting Standard 15: 'Revenue from contracts with customers' (IFRS 15) with effect from 1 January 2016 (the transition date), as the Group considers it better reflects the real estate business performance of the Group. Revenue recognition on the sale of properties, including villas, apartments and plots of land involves significant inherent risk due to the judgement and estimation involved. Audit of judgements around the percentage of completion of projects, including the cost incurred to date against the total cost of the project was an item requiring significant audit attention, in particular consideration of: • The ability of the Group to enforce payment for work completed under the terms of its contract thereby meeting the IFRS 15 criteria for revenue recognition over time • The total expected cost of completion of the projects • The likelihood of collection of remaining sales consideration Refer to note 4 of the consolidated financial statements for the accounting policy related to revenue recognition and note 7 for the disclosure related to revenue.	In responding to this area of focus, our procedures included the following: • Obtained understanding of the process and key controls surrounding revenue recognition process. We performed walkthroughs and testing of relevant key controls to determine whether they were designed, implemented and operated effectively throughout the year. • Reviewed the customer contracts in respect of sale of properties, on a sample basis, to identify the performance obligations of the Group under these contracts and assessed whether these performance obligations are satisfied over time or at a point in time, based on IFRS 15 criteria. Our focus included the determination of whether the Group has enforceable right to payment for performance completed to date. • Reviewed the cost estimation process to assess the robustness of the cost estimation mechanism, with specific focus on the total estimated cost of the projects. • Assessed the likelihood of collection of sales consideration, as evidenced by bank guarantees and promissory notes. • Performed test of details, on a sample basis, to check that the costs incurred to date on developments are recorded appropriately. We also checked the allocation of these costs to sold and un-sold units based on the relative area of the respective project. • Recalculated the revenue, on a sample basis, using the input method and compared it with the calculation performed by the management. • Assessed the appropriateness of the Group's revenue recognition accounting policies and the related disclosures in the consolidated financial statements.

Key audit matter	Why considered most significant	How our audit addressed the key audit matter
Impairment review of investment properties and property and equipment	The Group assesses indicators of impairment on its investment properties and property and equipment on an ongoing basis. We have considered this as a key audit matter as the evaluation of impairment indicators involves significant assumptions and estimates. Any variation in the estimation/assumptions could have a material impact on the consolidated financial statements. As part of its assessment, the Group reviews indicators including but not limited to, expected net cash flows from the identified Cash Generating Units (CGUs), current market conditions and other performance indicators. Also, the Group considers certain assets including freehold land and infrastructure assets as corporate assets, and combines expected net cash flows from all cash generating units to which the corporate assets belong, for impairment assessment. In addition to the above, the Group involves third party valuers to carry out valuations for its investment properties, to assess the fair value of its investment properties. Refer to note 4 to the consolidated financial statements for the accounting policy for impairment of non-current assets, note 12 & 13 for disclosures related to property and equipment and investment properties, respectively.	In order to evaluate the management assessment of impairment, we performed the following: • Discussed with the management the process of identifying impairment indicators and results of the assessment. • Reviewed the expected cash flows from CGUs, on a sample basis, and involved our internal specialists to assess the managements' impairment assessment, including the review of assumptions underlying the value in use calculations, based on knowledge of the business, industry and prevailing market conditions. Our specialists also assessed whether the approach and methods used for the purpose of impairment assessment are in accordance with the established standards. • Assessed the qualifications and expertise of the third party valuers, involved in the valuation of investment properties. • Assessed the appropriateness of the Group's accounting policies for impairment and the related disclosures in the consolidated financial statements.

Other information included in The Group's 2017 Annual Report

Other information consists of the information included in the Group's 2017 annual report, other than the consolidated financial statements and our auditors' report thereon. Management is responsible for the other information in its annual report. The Group's 2017 annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the Group's 2017 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Report on the Audit of the Consolidated Financial Statements continued

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants and the provisions of Companies' Law and Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with Governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

for Ernst & Young

Ahmed I.Reda
Certified Public Accountant
License No. 356

10 Rajab 1439 H
27 March 2018

Jeddah
17/59/AIR

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	31 December 2017 SR'000	31 December 2016 SR'000 (Note 6)
Revenue	7	**1,437,976**	2,267,771
Cost of revenue	7	**(615,622)**	(1,093,607)
GROSS PROFIT		**822,354**	1,174,164
EXPENSES			
Selling and marketing	8	**(63,180)**	(125,026)
General and administration	9	**(252,501)**	(285,972)
Impairment loss		**(48,573)**	(44,016)
Depreciation	12 (a)	**(152,368)**	(128,161)
Amortisation	14	**(13,069)**	(15,091)
PROFIT FROM MAIN OPERATIONS		**292,663**	575,898
OTHER INCOME/(EXPENSES)			
Murabaha deposit income		**15,953**	18,150
Financial charges		**(54,074)**	(48,784)
Share of results of equity accounted investees	15	**31,462**	(1,983)
Other income	10	**102,858**	198,769
PROFIT FOR THE YEAR BEFORE ZAKAT		**388,862**	742,050
Zakat	27	**(138,038)**	(20,000)
NET PROFIT FOR THE YEAR		**250,824**	722,050
OTHER COMPREHENSIVE LOSS			
Items that will be reclassified to consolidated statement of profit or loss in subsequent periods:			
Share of other comprehensive loss from equity accounted investee	15 (a)	**(28,057)**	–
Items that will not be reclassified to consolidated statement of profit or loss in subsequent periods:			
Re-measurement loss on defined benefit plans	25	**(46)**	(3,076)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**222,721**	718,974
NET PROFIT FOR THE YEAR ATTRIBUTABLE TO:			
Equity holders of the parent		**240,921**	719,683
Non-controlling interests		**9,903**	2,367
		250,824	722,050
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:			
Equity holders of the parent		**212,922**	716,607
Non-controlling interests		**9,799**	2,367
		222,721	718,974
EARNINGS PER SHARE			
Weighted average number of ordinary shares ('000)	11	**850,000**	850,000
Basic and diluted profit per share attributable to ordinary equity holders of the Parent Company (in SR per share)	11	**0.28**	0.85

The attached notes 1 to 36 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Note	31 December 2017 SR'000	31 December 2016 SR'000 (Note 6)	1 January 2016 SR'000 (Note 6)
ASSETS				
NON-CURRENT ASSETS				
Property and equipment	12	**5,091,433**	4,663,038	3,865,343
Investment properties	13	**5,085,439**	5,057,221	5,203,417
Intangible assets	14	**15,198**	19,450	20,389
Investment in equity accounted investees	15	**2,388,691**	2,385,286	2,341,479
Employees' receivable – Home Ownership Scheme	20	**82,031**	69,774	34,530
Other long term receivable	10(b)	**24,059**	48,119	–
TOTAL NON-CURRENT ASSETS		**12,686,851**	12,242,888	11,465,158
CURRENT ASSETS				
Current portion of employees' receivable – Home Ownership Scheme	20	**4,779**	4,121	2,126
Unbilled revenue		**343,414**	90,723	–
Development properties	16	**1,769,398**	1,493,476	1,071,128
Accounts receivables and other current assets	17	**739,279**	563,885	348,026
Murabaha term deposits with banks	18	**524,110**	997,000	1,012,979
Cash and cash equivalents	19	**1,227,810**	1,177,396	1,898,851
TOTAL CURRENT ASSETS		**4,608,790**	4,326,601	4,333,110
Assets held for sale		**–**	–	90,891
TOTAL ASSETS		**17,295,641**	16,569,489	15,889,159
EQUITY AND LIABILITIES				
EQUITY				
Share capital	21	**8,500,000**	8,500,000	8,500,000
Statutory reserve	22	**11,536**	11,536	1,869
Accumulated losses		**(502,261)**	(715,183)	(1,422,123)
Effect of reducing the ownership percentage in a subsidiary	23	**(86)**	(86)	(86)
Equity attributable to the equity holders of the Parent Company		**8,009,189**	7,796,267	7,079,660
Non-controlling interests		**(2,069)**	(11,868)	(14,235)
TOTAL EQUITY		**8,007,120**	7,784,399	7,065,425
NON-CURRENT LIABILITIES				
Long term loans	24	**7,350,000**	7,500,000	7,100,000
Employees' terminal benefits	25	**52,758**	43,205	31,192
Unearned financing component on long term receivables		**69,898**	63,180	25,447
Unearned interest income – Home Ownership Scheme	20	**18,813**	14,336	6,158
TOTAL NON-CURRENT LIABILITIES		**7,491,469**	7,620,721	7,162,797
CURRENT LIABILITIES				
Amount billed in excess of work done		**–**	–	773,640
Accounts payable and accruals	26	**993,966**	1,135,050	857,034
Zakat payable	27	**153,086**	29,319	30,263
Current portion of long term loan	24	**650,000**	–	–
TOTAL CURRENT LIABILITIES		**1,797,052**	1,164,369	1,660,937
TOTAL LIABILITIES		**9,288,521**	8,785,090	8,823,734
TOTAL EQUITY AND LIABILITIES		**17,295,641**	16,569,489	15,889,159

The attached notes 1 to 36 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Attributed to equity holders of the parent						
	Share capital SR'000	Statutory reserve SR'000	Accumulated losses SR'000	Effect of reducing the ownership percentage in a subsidiary SR'000	Total SR'000	Non-controlling interests SR'000	Total equity SR'000
Balance as at 1 January 2017	8,500,000	11,536	(715,183)	(86)	7,796,267	(11,868)	7,784,399
Net profit for the year	–	–	240,921	–	240,921	9,903	250,824
Other comprehensive loss for the year	–	–	(27,999)	–	(27,999)	(104)	(28,103)
Total comprehensive income for the year	–	–	212,922	–	212,922	9,799	222,721
Balance as at 31 December 2017	**8,500,000**	**11,536**	**(502,261)**	**(86)**	**8,009,189**	**(2,069)**	**8,007,120**
Balance as at 1 January 2016	8,500,000	1,869	(1,422,123)	(86)	7,079,660	(14,235)	7,065,425
Net profit for the year	–	–	719,683	–	719,683	2,367	722,050
Other comprehensive loss for the year	–	–	(3,076)	–	(3,076)	–	(3,076)
Total comprehensive income for the year	–	–	716,607	–	716,607	2,367	718,974
Transfer to statutory reserve	–	9,667	(9,667)	–	–	–	–
Balance as at 31 December 2016	8,500,000	11,536	(715,183)	(86)	7,796,267	(11,868)	7,784,399

The attached notes 1 to 36 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	31 December 2017 SR'000	31 December 2016 SR'000 (Note 6)
OPERATING ACTIVITIES			
Profit for the year before zakat		**388,862**	742,050
Adjustments to reconcile profit for the year before zakat to net cash flows:			
Depreciation	12 & 13	**232,584**	197,246
Impairment loss		**48,573**	44,016
Amortization	14	**13,069**	15,091
Financial charges		**54,074**	48,784
Share of results of equity accounted investees	15	**(31,462)**	1,983
Murabaha deposit income		**(15,953)**	(18,150)
Unwinding of unearned interest income		**(333)**	(1,326)
Employees' benefit expense – Home Ownership Scheme		**5,236**	14,289
Provision for development properties	16	**3,526**	(709)
Provision for doubtful debts	17	**7,835**	21,885
Loss on disposal of property and equipment		**–**	296
Provision for employees' terminal benefits	25	**13,933**	10,597
Elimination of share of profit on sale of land	15 (b)	**–**	8,165
		719,944	1,084,217
Working capital adjustments			
Employees' receivable – Home Ownership Scheme		**(13,341)**	(42,024)
Unbilled revenue, net		**(252,691)**	(864,363)
Development properties		**(277,180)**	(164,742)
Accounts receivables and other current assets		**(159,169)**	(285,863)
Accounts payable and accruals		**(149,010)**	278,016
Cash (used in)/from operations		**(131,447)**	5,241
Financial charges paid		**(54,074)**	(48,784)
Zakat paid	27	**(6,345)**	(20,944)
Employees' terminal benefits paid	25	**(4,426)**	(1,660)
Net cash used in operating activities		**(196,292)**	(66,147)
INVESTING ACTIVITIES			
Net movement in murabaha term deposits with banks		**472,890**	15,979
Murabaha deposit income		**15,953**	18,150
Proceeds from sale of assets classified as held for sale		**–**	46,875
Purchase of property and equipment	12	**(652,010)**	(967,022)
Proceeds from disposal of property and equipment		**–**	904
Amounts incurred on investment properties	13	**(88,028)**	(139,820)
Purchase of intangible assets	14	**(8,817)**	(14,152)
Investment in equity accounted investees	15 (b)	**–**	(53,955)
Net cash used in investing activities		**(260,012)**	(1,093,041)
FINANCING ACTIVITIES			
Net movement in long term loans		**500,000**	400,000
Net movement in unearned interest income		**6,718**	37,733
Net cash from financing activities		**506,718**	437,733
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**50,414**	(721,455)
Cash and cash equivalents at the beginning of the year		**1,177,396**	1,898,851
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**1,227,810**	1,177,396
MAJOR NON-CASH TRANSACTIONS			
Major non-cash transactions are reflected in note 12, note 13, note 16 and note 28.			

The attached notes 1 to 36 form part of these consolidated financial statements.

1. CORPORATE INFORMATION

Emaar The Economic City (the "Company" or the "Parent Company") is a Saudi Joint Stock Company incorporated and operating in the Kingdom of Saudi Arabia ("KSA") under Ministerial Decision No. 2533, dated 3 Ramadan 1427H, corresponding to 21 September 2006. The Company obtained its initial Commercial Registration No. 4030164269 on 8 Ramadan 1427H, corresponding to 26 September 2006. The registered office of the Company has been shifted to Rabigh with a revised Commercial Registration No. 4602005884, dated 6 Rabi Awal 1436H, corresponding to 28 December 2014.

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

As at the reporting date, the Company has investments in subsidiaries, mentioned in note 4 (hereinafter referred to together as "the Group").

2. BASIS OF PREPARATION

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants ("SOCPA"). These are the Group's first annual consolidated financial statements in accordance with IFRS, as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the SOCPA. Accordingly, the International Financial Reporting Standard 1, "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"), as endorsed in KSA has been applied. Refer to note 6 for information on the first time adoption of IFRS as endorsed in KSA, by the Group.

2.2 Basis of measurement

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

2.3 Functional and presentation currency

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

These estimates and assumptions are based upon experience and various other factors that are believed to be reasonable under the circumstances and are used to judge the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised or in the revision period and future periods if the changed estimates affect both current and future periods.

The key judgments, estimates and assumptions that have a significant impact on the consolidated financial statements of the Group are discussed below:

Judgements

Satisfaction of performance obligations

The Group is required to assess each of its contracts with customers to determine whether performance obligations are satisfied over time or at a point in time in order to determine the appropriate method of recognizing revenue. The Group has assessed that based on the sale agreements entered into with customers and the provisions of relevant laws and regulations, where contracts are entered into to provide real estate assets to customer, the Group does not create an asset with an alternative use to the Group and usually has an enforceable right to payment for performance completed to date. Based on this, the Group recognizes revenue over time. Where this is not the case, revenue is recognized at a point in time.

The Group has elected to apply the input method in allocating the transaction price to performance obligation where revenue is recognized over time. The Group considers that the use of the input method, which requires revenue recognition based on the Group's efforts to the satisfaction of the performance obligation, provides the best reference of revenue actually earned. In applying the input method, the Group estimates the cost to complete the projects in order to determine the amount of the revenue to be recognized.

Determination of transaction prices

The Group is required to determine the transaction price in respect of each of its contracts with customers. In making such judgment the Group assesses the impact of any variable consideration in the contract, due to discounts or penalties, the existence of any significant financing component in the contract and any non-cash consideration in the contract.

Classification of investment properties

The Group determines whether a property qualifies as an investment property in accordance with IAS 40 Investment Property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by the Group. The Group has determined that hotel and serviced residential buildings owned by the Group are to be classified as part of property and equipment rather than investment properties since the Group also operates these assets.

Transfer of real estate assets from investment properties to development properties

The Group sells real estate assets in its ordinary course of business. When the real estate assets which were previously classified as investment properties are identified for sale in the ordinary course of business, then the assets are transferred to development properties at their carrying value at the date of identification and become held for sale. Sale proceeds from such assets are recognized as revenue in accordance with IFRS 15 Revenue from Contracts with Customers.

Operating lease commitments – Group as lessor

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

Consolidation of subsidiaries

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

Estimations and assumptions

Defined benefit plans

The cost of the defined benefit plan and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and employees' turnover rate. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The most sensitive parameters are discount rate and future salary increases. In determining the appropriate discount rate, management considers the market yield on high quality corporate bonds. Future salary increases are based on expected future inflation rates, seniority, promotion, demand and supply in the employment market. The mortality rate is based on publicly available mortality tables for the specific countries. Those mortality tables tend to change only at intervals in response to demographic changes. Further details about employee benefits obligations are provided in note 25.

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

Estimations and assumptions (continued)

Impairment of trade and other receivables

An estimate of the collectible amount of trade and other receivables is made when collection of the full amount is no longer probable. The entity follows an expected credit loss model for the impairment of trade and other receivables.

Useful lives of property and equipment and investment properties

The Group's management determines the estimated useful lives of its property and equipment and investment properties for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. The management periodically reviews estimated useful lives and the depreciation method to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from these assets.

Cost to complete the projects

The Group estimates the cost to complete the projects in order to determine the cost attributable to revenue being recognized. These estimates include, amongst other items, the construction costs, variation orders and the cost of meeting other contractual obligations to the customers. Such estimates are reviewed at regular intervals. Any subsequent changes in the estimated cost to complete may affect the results of the subsequent periods.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. The non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows.

Going concern

The Group's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

4. SIGNIFICANT ACCOUNTING POLICIES

Following are the significant accounting policies applied by the Group in preparing its consolidated financial statements and the opening IFRS statement of financial position as at 1 January 2016 for the purposes of the transition to IFRSs, except for the application of relevant exceptions or available exemptions as stipulated in IFRS 1. Details of such exceptions and exemption are disclosed in note 6.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of the subsidiary, without the loss of control, is accounted for as equity transactions. If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in consolidated statement of profit or loss and other comprehensive income. Any investment retained is recognized at fair value.

The Company has investments in the following subsidiaries, which are primarily involved in development, investments, marketing, sale/lease, operations and maintenance of properties, providing higher education and establishment of companies:

Name	Country of incorporation	Year of incorporation	% of capital held (directly or indirectly) 2017	2016
Economic Cities Investments Holding Company ("ECIHC")	Saudi Arabia	2010	**99%**	99%
Industrial Zones Development Company Limited ("IZDCL")	Saudi Arabia	2011	**98%**	98%
Economic Cities Real Estate Properties Operation and Management Company ("REOM")	Saudi Arabia	2013	**98%**	98%
Economic Cities Pioneer Real Estate Management Company ("REM")	Saudi Arabia	2013	**98%**	98%
Economic Cities Real Estate Development Company ("RED")	Saudi Arabia	2013	**98%**	98%
Emaar Knowledge Company Limited ("EKC") (see note below)	Saudi Arabia	2015	**100%**	100%

The subsidiaries do not have any conventional investments or borrowings as at 31 December 2017 and 2016. There has been no interest income for the years ended 31 December 2017 and 2016. Refer to note 15 for information related to equity accounted investees.

Investment in equity accounted investees (associate and joint venture)

Associate is an entity in which the Group has significant influence, but not control, over the financial and operating policies. Joint venture is an entity over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

The Group's investment in associate and joint venture are accounted for using the equity method. Under the equity method, the investment in associate and joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate or joint venture since the acquisition date. The consolidated statement of profit or loss and other comprehensive income reflects the Group's share of the results of operations of the associate and joint venture. Any change in Other Comprehensive Income (OCI) of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and associate and its joint venture are eliminated to the extent of the Group's interest in the associate and joint venture.

The financial statements of the associate and joint venture are prepared for the same reporting period as the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in associate or its joint venture. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the loss in the consolidated statement of profit or loss and other comprehensive income.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in associate or joint venture, the carrying amount of that interest is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Current versus non-current classification

Assets

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

Liabilities

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Revenue recognition

Early adoption of IFRS 15

IFRS 15 Revenue from contracts with customers was issued in May 2014 and is effective for annual periods commencing on or after 1 January 2018 either based on a full retrospective or modified application, with early adoption permitted. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, which is found currently across several Standards and Interpretations within IFRS's. It establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has reviewed the impact of IFRS 15 and has elected to early adopt IFRS 15 with effect from 1 January 2016, as the Group considers that it better reflects the business performance of the Group. The Group has opted for full retrospective application permitted by IFRS 15 upon adoption of the new standard. Accordingly, the details of adjustments to the immediately preceding period for which this standard is applied are disclosed in note 6.

As a result of early adoption, the Group has applied the following accounting policy for revenue recognition in the preparation of its consolidated financial statements:

Revenue from contracts with customers for sale of properties

The Group recognizes revenue from contracts with customers based on a five step model as set out in IFRS 15:

Step 1. Identify the contract with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria that must be met.

Step 2. Identify the performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.

Step 3. Determine the transaction price: The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Step 4. Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Group will allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.

Step 5. Recognize revenue when (or as) the entity satisfies a performance obligation.

The Group satisfies a performance obligation and recognizes revenue over time, if one of the following criteria is met:

1. The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs; or
2. The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
3. The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

For performance obligations, where one of the above conditions are not met, revenue is recognized at the point in time at which the performance obligation is satisfied.

When the Group satisfies a performance obligation by delivering the promised goods or services, it creates a contract asset based on the amount of consideration earned by the performance. Where the amount billed to the customer exceeds the amount of revenue recognized, this gives rise to a contract liability.

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

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

Rental income

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred or incentive in negotiating and arranging an operating lease is considered an integral part of the carrying amount of the leased contract and recognized on a straight-line basis over the lease term.

Service revenue

Revenue from rendering of services is recognized over a period of time when the outcome of the transaction can be estimated reliably, by reference to the stage of completion of the transaction at the reporting date. Where the outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Hospitality revenue

Revenue from hotels comprises revenue from rooms, food and beverages and other associated services provided. The revenue is recognized net of discount on an accrual basis when the services are rendered.

School revenue

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

Income on Murabaha term deposits

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

Cost of revenue

Cost of revenue includes the cost of land, development and other service related costs. The cost of revenue is based on the proportion of the cost incurred to date related to sold units to the estimated total costs for each project. The costs of revenues in respect of hotel and school is based on actual cost of providing the services.

Expenses

Selling and marketing and general and administrative expenses include direct and indirect costs not specifically part of cost of revenue. Selling and marketing expenses are those arising from the Group's efforts underlying the sales and marketing functions. All other expenses, except for financial charges, depreciation, amortization and impairment loss are classified as general and administrative expenses. Allocations of common expenses between cost of revenue, selling and marketing and general and administrative expenses, when required, are made on a consistent basis.

Zakat

Zakat is provided for in accordance with the Saudi Arabian fiscal regulations. Provision for zakat for the Company and zakat related to the Company's ownership in the Saudi Arabian subsidiaries is charged to the consolidated statement of profit or loss and other comprehensive income. Additional amounts, if any, that may become due on finalization of an assessment are accounted for in the year in which the assessment is finalized.

Withholding tax

The Group withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under the Saudi Arabian Tax Laws. Withholding tax related to foreign payments are recorded as liabilities.

Foreign currencies

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange ruling at the reporting date. All differences arising on settlement or translation of monetary items are taken to the consolidated statement of profit or loss and other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of a gain or loss on change in fair value of the item.

Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. Such cost also includes the borrowing costs for long-term construction projects if the recognition criteria are met.

When parts of an item of property and equipment have materially different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and the net amount is recognized within other income in the consolidated statement of profit or loss and other comprehensive income.

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

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

Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Freehold land is not depreciated.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the respective assets.

Depreciation methods, useful lives and residual values are reviewed periodically and adjusted if required.

Capital work in progress

Capital work in progress are carried at cost less any recognized impairment loss. When the assets are ready for intended use, the capital work in progress is transferred to the appropriate property and equipment category and is accounted for in accordance with the Group's policies.

Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. An operating lease is a lease other than a finance lease. Generally all leases entered by the Group are operating leases and the leased assets are not recognized in the Group's statement of financial position.

Operating lease cost is recognized as an operating expense in the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the lease term.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases.

The Group enters into leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases. Lease income is recognized in the consolidated statement of profit or loss and other comprehensive income in accordance with the terms of the lease contracts over the lease term on a systematic basis as this method is more representative of the time pattern in which use of benefits are derived from the leased assets.

The Group operates an "Employee Home Ownership Scheme" which is categorized as a finance lease. Under the scheme, the Group sells the built units to employees under interest free finance lease arrangement for a period of twenty years. Generally, the employee is entitled to continue in the scheme, even after retirement, resignation or termination from the Group. The gross value of the lease payments is recognized as a receivable under employee home ownership scheme. The difference between the gross receivable and the present value of the receivable is recognized as an unearned interest income with a corresponding impact in the consolidated statement of profit or loss and other comprehensive income as an employee benefit expense. Interest income is recognized in the consolidated statement of profit or loss and other comprehensive income over the term of the lease using the effective rate of interest. In case of cancellation of the employee home ownership contract by the employee, the amount paid by the employee under the scheme is forfeited and recognized in the consolidated statement of profit or loss and other comprehensive income.

Lease incentives or any escalation in the lease rental are recognized as an integral part of the total lease obligation/receivable and accounted for on a straight line basis over the term of the lease. Contingent rents are recognized as revenue in the period in which they are earned.

Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs that are directly attributable to the construction of an asset are capitalized using capitalization rate up to the stage when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed and, thereafter, such costs are charged to the consolidated statement of profit or loss and other comprehensive income. In case of specific borrowings, all such costs, directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalized as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Investment properties

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

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

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

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

Fair value measurement

The Group discloses the fair value of the non-financial assets such as investment properties as part of its financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

Intangible assets

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

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

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of profit or loss and other comprehensive income in the expense category that is consistent with the function of the intangible assets.

The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of profit or loss and other comprehensive income when the asset is derecognized.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash Generating Unit (CGU's) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using appropriate discount rate that reflects current market assessments of the time value of money. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

An assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of profit or loss and other comprehensive income.

Intangible assets with indefinite useful lives are tested for impairment annually at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

Development properties

Properties acquired, constructed or in the course of construction and development for sale are classified as development properties and are stated at the lower of cost and net realizable value. The cost of development properties generally includes the cost of land, construction and other related expenditure necessary to get the properties ready for sale. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The management reviews the carrying values of development properties on an annual basis.

Non-Current Asset held for sale

Non-current assets are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. The criteria for held for sale classification is regarded as met only when the disposal is highly probable and the asset is available for immediate disposal in its present condition. Actions required to complete the disposal should indicate that it is unlikely that significant changes will be made or that the decision to dispose will be withdrawn.

Such assets are generally measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognized in the consolidated statement of profit or loss and other comprehensive income.

Once classified as held for sale, the respective assets are no longer amortized or depreciated, and equity accounted investee is no longer equity accounted.

Financial Instruments

Early adoption of IFRS 9

IFRS 9 – "Financial Instruments" is effective for annual periods commencing on or after 1 January 2018. The Group has elected to early adopt IFRS 9 retrospectively from 1 January 2016. IFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Initial recognition – Financial assets and financial liabilities

An entity shall recognize a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument.

Financial assets

Initial Measurement

At initial recognition, except for the trade receivables which do not contain a significant financing component, the Group measures a financial asset at its fair value. In the case of a financial asset not at fair value through profit or loss, financial asset are measured at transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the consolidated statement of profit or loss and other comprehensive income, if any.

The trade receivables that do not contain a significant financing component or which have a maturity of less than 12 months are measured at the transaction price as per IFRS 15.

Classification and Subsequent measurement

The Group classifies its financial assets in the following measurement categories:

a) those to be measured subsequently at fair value (either through consolidated statement of other comprehensive income, or through consolidated statement of profit or loss), and
b) those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. The category most relevant to the Group is financial assets measured at amortized cost.

The Group has not classified any financial asset as measured at fair value through consolidated statement of profit or loss and other comprehensive income.

Financial assets measured at amortized cost

A financial asset shall be measured at amortized cost if both of the following conditions are met:

a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortized cost include receivables, employees' receivable – home ownership scheme and. Murabaha term deposits with banks.

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

Reclassification

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

De-recognition

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

Impairment of financial assets

The Group assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

IFRS 9 requires an entity to follow an expected credit loss model for the impairment of financial assets. It is no longer necessary for a credit event to have occurred for the recognition of credit losses. Instead, an entity, using expected credit loss model, always accounts for expected credit losses and changes therein at each reporting date.

Expected credit loss shall be measured and provided either at an amount equal to (a) 12 month expected losses; or (b) lifetime expected losses. If the credit risk of the financial instrument has not increased significantly since inception, then an amount equal to 12 month expected loss is provided. In other cases, lifetime credit losses shall be provided. For trade receivables with a significant financing component a simplified approach is available, whereby an assessment of increase in credit risk need not be performed at each reporting date. Instead, an entity can choose to provide for the expected losses based on lifetime expected losses. The Group has chosen to avail the option of lifetime expected credit losses ("ECL"). For trade receivables with no significant financing component, an entity is required to follow lifetime ECL.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of profit or loss and other comprehensive income. Commission income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the consolidated statement of profit or loss and other comprehensive income.

Financial liabilities

Initial measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through consolidated statement of profit or loss and other comprehensive income, loans and borrowings and payables, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of long term loans and payables, net of directly attributable transaction costs. The Group's financial liabilities include accounts payable and accruals and term loans.

Classification and subsequent measurement

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

a) financial liabilities at fair value through consolidated statement of profit or loss and other comprehensive income.
b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
c) financial guarantee contracts.
d) commitments to provide a loan at a below-market commission rate.
e) contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies. Such contingent consideration shall subsequently be measured at fair value with changes recognized in consolidated statement of profit or loss and other comprehensive income.

All of the Group's financial liabilities are subsequently measured at amortized cost using the EIR method, if applicable. Gains and losses are recognized in the consolidated statement of profit or loss and other comprehensive income when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the consolidated statement of profit or loss and other comprehensive income.

Reclassification

The Group cannot reclassify any financial liability.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statement of profit or loss and other comprehensive income.

Disclosures in relation to the initial application of IFRS 9

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. The date of initial application (i.e., the date on which the Group has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2016. Accordingly, the Group has applied the requirements of IFRS 9 to instruments that have not been derecognized as at 1 January 2016.

At the date of initial application i.e. 1 January 2016, there were no classification adjustments of financial assets and financial liabilities under IFRS 9 and IAS 39. However, accounts receivable balance was reduced by SR 10.5 million, as a result of change in measurement basis under IFRS 9 and IAS 39.

There were no financial assets or financial liabilities which the Group had previously designated as at FVTPL under IAS 39 that were subject to reclassification, or which the Group has elected to reclassify upon the application of IFRS 9. There were no financial assets or financial liabilities which the Group has elected to designate as at FVTPL at the date of initial application of IFRS 9.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash with banks and other short-term highly liquid investments, if any, with original maturities of three months or less, which are subject to an insignificant risk of changes in value.

Murabaha term deposits with banks

Murabaha term deposits with banks include placements with banks with original maturities of more than three months and less than one year from the placement date.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of profit or loss and other comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost in the consolidated statement of profit or loss and other comprehensive income.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Employee benefits

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Defined benefit plans

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

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses are recognized immediately in OCI. Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. Net interest expense and other expenses related to defined benefit plans are recognized in the consolidated statement of profit or loss and other comprehensive income.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in the consolidated statement of profit or loss and other comprehensive income.

For the liability relating to employees' terminal benefits, the actuarial valuation process takes into account the provisions of the Saudi Arabian Labour Law as well as the Group's policy.

Earnings per share (EPS)

Basic EPS is calculated by dividing the net income for the period attributable to equity holders of the Parent Company by the weighted average number of shares outstanding during the year.

Diluted EPS is calculated by dividing the profit attributable to equity holders of the Parent Company (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. Since the Group does not have any convertible shares, therefore, the basic EPS equals the diluted EPS.

Segment reporting

A business segment is a group of assets, operations or entities:

i) engaged in business activities from which it may earn revenue and incur expenses including revenues and expenses that relate to transactions with any of the Group's other components;

ii) the results of its operations are continuously analyzed by chief operating decision maker in order to make decisions related to resource allocation and performance assessment; and

iii) for which financial information is discretely available.

For further details of business segments, refer note 30.

A geographical segment is engaged in producing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. Since the Group operates in the Kingdom of Saudi Arabia only, hence, no geographical segments are being presented in these consolidated financial statements.

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 16 Leases

The IASB has issued a new standard for the recognition of leases. This standard will replace:

- IAS 17 – 'Leases'
- IFRIC 4 – 'Whether an arrangement contains a lease'
- SIC 15 – 'Operating leases – Incentives'
- SIC-27 – 'Evaluating the substance of transactions involving the legal form of a lease'

Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessee to recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and lease assets; however, this exemption can only be applied by lessee.

Under IFRS 16, 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. The standard is not expected to have any major impact on the Group. The mandatory date for adoption for the standard is 1 January 2019.

Lessees will also be required to re-measure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2018, the Group plans to assess the potential effect of IFRS 16 on its consolidated financial statements.

IAS 40 Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is an evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date.

The amendments are effective for annual periods beginning on or after 1 January 2018. Retrospective application in accordance with IAS 8 is only permitted if that is possible without the use of hindsight. Early application of the amendments is permitted and must be disclosed. The Group is currently assessing the impact of the amendment to IAS 40.

6. FIRST-TIME ADOPTION OF IFRS

These are the Group's first annual consolidated financial statements, prepared in accordance with IFRS as issued by the IASB and endorsed in the Kingdom of Saudi Arabia together with other standards and pronouncements that are issued by the SOCPA. For all periods up to and including the year ended 31 December 2016, the Group prepared its consolidated financial statements in accordance with the Generally Accepted Accounting Principles ("GAAP") issued by SOCPA ("SOCPA GAAP").

Accordingly, the Group has prepared consolidated financial statements which comply with IFRS applicable as at 31 December 2017, together with the comparative period data for the year ended 31 December 2016. In preparing the consolidated financial statements, the Group's opening statement of consolidated financial position was prepared as at 1 January 2016, i.e., the Group's date of transition for IFRS.

These consolidated financial statements have been prepared in accordance with the accounting policies described in note 4, except for the exemption availed by the Group in preparing these consolidated financial statements in accordance with IFRS 1 – First time adoption of International Financial Reporting Standards from full retrospective application of IFRS.

In line with IFRS 1, the Group has optional exemption, related to fair value measurement of financial assets or financial liabilities at initial recognition, to carry forward SOCPA amount as on the transition date. The Group has used this exemption and applied fair value accounting on retention money for transactions entered into subsequent to transition date.

6. FIRST-TIME ADOPTION OF IFRS (continued)

In preparing its opening IFRS consolidated statement of financial position, as at 1 January 2016, and the consolidated financial statements for the year ended 31 December 2016, the Group has analyzed the impact and has made following adjustments to the amounts reported previously in the consolidated financial statements prepared in accordance with the SOCPA GAAP.

The following is a reconciliation of the Group's consolidated statement of financial position reported in accordance with the SOCPA GAAP to its consolidated statement of financial position under IFRS as endorsed in KSA as at 1 January 2016:

	Note	SOCPA GAAP as at 1 January 2016 SR' 000	Re-measurements SR' 000	IFRS as at 1 January 2016 SR' 000
ASSETS				
NON-CURRENT ASSETS				
Property and equipment	6(a), (e) & (f)	5,495,223	(1,629,880)	3,865,343
Investment properties	6(a) & (f)	5,217,389	(13,972)	5,203,417
Intangible assets	6(b)	–	20,389	20,389
Investment in equity accounted investees		2,345,651	(4,172)	2,341,479
Employees' receivable – Home Ownership Scheme		34,530	–	34,530
Deferred costs	6(c)	5,857	(5,857)	–
TOTAL NON-CURRENT ASSETS		13,098,650	(1,633,492)	11,465,158
CURRENT ASSETS				
Current portion of employees' receivable – Home Ownership Scheme		2,126	–	2,126
Development properties	6(e)	1,575,841	(504,713)	1,071,128
Accounts receivables and other current assets	6(h)	358,322	(10,296)	348,026
Murabaha term deposits with banks		1,012,979	–	1,012,979
Cash and cash equivalents		1,898,851	–	1,898,851
TOTAL CURRENT ASSETS		4,848,119	(515,009)	4,333,110
Assets held for sale		90,891	–	90,891
TOTAL ASSETS		18,037,660	(2,148,501)	15,889,159
EQUITY AND LIABILITIES				
EQUITY				
Share capital		8,500,000	–	8,500,000
Statutory reserve		1,869	–	1,869
Retained earnings/(accumulated losses)		16,820	(1,438,943)	(1,422,123)
Effect of reducing the ownership percentage in a subsidiary		(86)	–	(86)
Equity attributable to the equity holders of the Parent Company		8,518,603	(1,438,943)	7,079,660
Non-controlling interests		(1,908)	(12,327)	(14,235)
TOTAL EQUITY		8,516,695	(1,451,270)	7,065,425

	Note	SOCPA GAAP as at 1 January 2016 SR' 000	Re-measurements SR' 000	IFRS as at 1 January 2016 SR' 000
LIABILITIES				
NON-CURRENT LIABILITIES				
Long term loans		7,100,000	–	7,100,000
Deferred contribution	6(e)	1,496,629	(1,496,629)	–
Employees' terminal benefits	6(d)	23,117	8,075	31,192
Unearned financing component on long term receivables	6(e)	–	25,447	25,447
Unearned interest income – Home Ownership Scheme		6,158	–	6,158
TOTAL NON-CURRENT LIABILITIES		8,625,904	(1,463,107)	7,162,797
CURRENT LIABILITIES				
Amount billed in excess of work done	6(e)	–	773,640	773,640
Zakat Payable		–	30,263	30,263
Accounts payable and accruals		895,061	(38,027)	857,034
TOTAL CURRENT LIABILITIES		895,061	765,876	1,660,937
TOTAL LIABILITIES		9,520,965	(697,231)	8,823,734
TOTAL EQUITY AND LIABILITIES		18,037,660	(2,148,501)	15,889,159

The following is a reconciliation of the Group's consolidated statement of financial position reported in accordance with the SOCPA GAAP to its consolidated statement of financial position under IFRS as endorsed in KSA as at 31 December 2016:

	Note	SOCPA GAAP as at 1 January 2016 SR' 000	Re-measurements SR' 000	IFRS as at 1 January 2016 SR' 000
ASSETS				
NON-CURRENT ASSETS				
Property and equipment	6(a), (e) & (f)	7,035,435	(2,372,397)	4,663,038
Investment properties	6(a) & (f)	4,997,076	60,145	5,057,221
Intangible assets	6(b)	–	19,450	19,450
Investment in equity accounted investees		2,389,458	(4,172)	2,385,286
Employees' receivable – Home Ownership Scheme		69,774	–	69,774
Deferred costs	6(c)	4,602	(4,602)	–
Other long term receivable		48,119	–	48,119
TOTAL NON-CURRENT ASSETS		14,544,464	(2,301,576)	12,242,888

6. FIRST-TIME ADOPTION OF IFRS (continued)

	Note	SOCPA GAAP as at 1 January 2016 SR' 000	Re-measurements SR' 000	IFRS as at 1 January 2016 SR' 000
CURRENT ASSETS				
Current portion of employees' receivable – Home Ownership Scheme		4,121	–	4,121
Unbilled revenue	6(e)	–	90,723	90,723
Development properties	6(e)	1,549,948	(56,472)	1,493,476
Accounts receivables and other current assets	6(h)	578,367	(14,482)	563,885
Murabaha term deposits with banks		997,000	–	997,000
Cash and cash equivalents		1,177,396	–	1,177,396
TOTAL CURRENT ASSETS		4,306,832	19,769	4,326,601
TOTAL ASSETS		18,851,296	(2,281,807)	16,569,489
EQUITY AND LIABILITIES				
EQUITY				
Share capital		8,500,000	–	8,500,000
Statutory reserve		11,536	–	11,536
Retained earnings/(accumulated losses)		103,826	(819,009)	(715,183)
Effect of reducing the ownership percentage in a subsidiary		(86)	–	(86)
Equity attributable to the equity holders of the Parent Company		8,615,276	(819,009)	7,796,267
Non-controlling interests		(4,503)	(7,365)	(11,868)
TOTAL EQUITY		8,610,773	(826,374)	7,784,399
LIABILITIES				
NON-CURRENT LIABILITIES				
Long term loans		7,500,000	–	7,500,000
Deferred contribution	6(e)	1,523,924	(1,523,924)	–
Employees' terminal benefits	6(d)	32,105	11,100	43,205
Unearned financing component on long term receivables	6(e)	–	63,180	63,180
Unearned interest income – Home Ownership Scheme		14,336	–	14,336
TOTAL NON-CURRENT LIABILITIES		9,070,365	(1,449,644)	7,620,721
CURRENT LIABILITIES				
Accounts payable and accruals		1,170,158	(35,108)	1,135,050
Zakat payable		–	29,319	29,319
TOTAL CURRENT LIABILITIES		1,170,158	(5,789)	1,164,369
TOTAL LIABILITIES		10,240,523	(1,455,433)	8,785,090
TOTAL EQUITY AND LIABILITIES		18,851,296	(2,281,807)	16,569,489

The following is a reconciliation of the Group's consolidated statement of income reported in accordance with the SOCPA GAAP to its consolidated statement of profit or loss and other comprehensive income under IFRS as endorsed in KSA for the year ended 31 December 2016:

	Note	SOCPA GAAP as at 1 January 2016 SR' 000	Re-measurements SR' 000	IFRS as at 1 January 2016 SR' 000
Revenue	6(e) & (g)	1,139,827	1,127,944	2,267,771
Cost of revenue		(672,909)	(420,698)	(1,093,607)
GROSS PROFIT		466,918	707,246	1,174,164
EXPENSES				
Selling and marketing	6(h)	(121,687)	(3,339)	(125,026)
General and administration		(288,001)	2,029	(285,972)
Impairment loss		(44,016)	–	(44,016)
Depreciation	6 (a), (e) & (f)	(56,689)	(71,472)	(128,161)
Amortisation		(1,255)	(13,836)	(15,091)
(LOSS)/PROFIT FROM MAIN OPERATIONS		(44,730)	620,628	575,898
OTHER INCOME/(EXPENSES)				
Murabaha deposit income		51,332	(33,182)	18,150
Financial charges		(82,017)	33,233	(48,784)
Share of results of equity accounted investees		(1,983)	–	(1,983)
Other income		191,476	7,293	198,769
PROFIT FOR THE YEAR BEFORE ZAKAT		114,078	627,972	742,050
Zakat		(20,000)	–	(20,000)
NET PROFIT FOR THE YEAR		94,078	627,972	722,050
OTHER COMPREHENSIVE LOSS				
Items that will not be reclassified to consolidated statement of profit or loss in subsequent periods:				
Re-measurement loss on defined benefit plans	6.1	–	(3,076)	(3,076)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		94,078	624,896	718,974
NET PROFIT FOR THE YEAR ATTRIBUTABLE TO:				
Equity holders of the parent		96,673	623,010	719,683
Non-controlling interests		(2,595)	4,962	2,367
		94,078	627,972	722,050
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:				
Equity holders of the parent		96,673	619,934	716,607
Non-controlling interests		(2,595)	4,962	2,367
		94,078	624,896	718,974

6. FIRST-TIME ADOPTION OF IFRS (continued)

6.1 Other comprehensive loss

Under IFRS, employees' terminal benefits ("ETB") are required to be calculated using actuarial assumptions. Other comprehensive loss represents the re-measurement loss arising from experience adjustments and changes in actuarial assumptions occurred during the year. This adjustment is the result of IFRS transition only and there was no such item in the consolidated statement of income for the year ended 31 December 2016 presented under the SOCPA GAAP. Such adjustments will not be reclassified to the consolidated statement of profit or loss in subsequent periods.

6.2 Estimates

The estimates at 1 January 2016 and at 31 December 2016 are consistent with those made for the same dates in accordance with the SOCPA GAAP (after adjustments to reflect any differences in accounting policies) apart from the employees' terminal benefits where application of SOCPA GAAP did not require estimation.

The estimates used by the Group to present these amounts in accordance with the IFRS reflect conditions at 1 January 2016, the date of transition to IFRS and as at 31 December 2016.

6.3 Cash flows

The impact on cash flows and on earnings per share were:

	SOCPA GAAP as at 31 December 2016 SR' 000	IFRS as at 31 December 2016 SR' 000	Difference SR' 000
Net cash from operating activities	302,439	(66,147)	(368,586)
Net cash used in investing activities	(1,423,894)	(1,093,041)	330,853
Net cash from financing activities	400,000	437,733	37,733
Per ordinary share in SR – net income/(loss)	0.11	0.85	0.74

Notes to the reconciliation of consolidated statement of financial position, as at 1 January 2016 and 31 December 2016, and consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016, are given below:

6(a) Property and equipment and investment properties

Under the IFRS, property and equipment and investment properties need to be componentized and their useful lives separately identified. Historically, there was no such requirement under the SOCPA GAAP. Accordingly, an assessment was made by the Company which resulted in adjusted accumulated depreciation and retained earnings on the IFRS transition date reflecting the change in classification and useful lives. Additionally, depreciation for the year ended 31 December 2016, of property and equipment and investment properties was increased by SR 14.9 million and SR 7.6 million, respectively.

6(b) Intangible assets

An amount of SR 20 million, as at 1 January 2016, has been reclassified from property and equipment to intangible assets representing software that were previously classified as part of property and equipment under the SOCPA GAAP.

6(c) Deferred costs

Under the SOCPA GAAP, the Group capitalized certain pre-operating expenses and amortized this on a straight-line basis over seven years. As such, the cost does not qualify for recognition as an asset under IFRS, accordingly this asset has been derecognized against retained earnings.

6(d) Employees' terminal benefits

Under the IFRS, employees' terminal benefits are required to be calculated using actuarial assumptions. Historically, the Group has calculated these obligations in accordance with the provisions of the Saudi Arabian Labor Law. This change has resulted in an increase in the EOSB liability on the transition date and as at 31 December 2016 and a decrease in retained earnings and income on the transition date and for the year ended 31 December 2016.

6(e) Sales and other income

As mentioned in note 4, the Group has reviewed the impact of IFRS 15 and has elected to early adopt IFRS 15 with effect from 1 January 2017, as the Group considers that it better reflects the business performance of the Group. The Group has opted for full retrospective application permitted by IFRS 15 upon adoption of the new standard. Full retrospective application requires the recognition of the cumulative impact of adoption on all contracts not yet completed as at 1 January 2016 in the form of an adjustment to the opening balance of retained earnings as at 1 January 2016. As a result of early adoption of IFRS, following are the major impacts at transition date:

- Decrease in retained earnings by SR 925 million, which is primarily due to revenue recognition over period of time under IFRS 15.
- Decrease in retained earnings by SR 25 million, which is due to carving out of significant financing portion from the selling price.

6(f) Impairment of non-current assets

Under the SOCPA GAAP, non-current assets were reviewed for impairment when events or changes in circumstances indicated that their carrying value might exceed the sum of the undiscounted future cash flows expected from use and eventual disposal. Under IFRS, impairment of assets is based on the discounted future cash flows expected from use and eventual disposal of the non-current assets. At the date of transition to IFRS, as a result of the change in methodology, the Group has recorded an impairment loss of SR 457 million as at 1 January 2016. This amount has been recognized against retained earnings.

6(g) Rental income from investment properties

Under IFRS, all incentives for the agreement of a new or renewed operating lease, shall be recognized as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive's nature or form or the timing of payments. Accordingly, the Group has started recognizing revenue on a straight-line basis including the lease free period.

6(h) Expected credit loss model

Under the SOCPA GAAP, an estimate for doubtful receivables was made when collection of the full amount was no longer probable. However, IFRS 9 requires recognition of expected impairment loss equal to the lifetime expected credit losses ("ECL") if the credit risk on trade receivables has increased significantly since initial recognition. Accordingly, adjustments have been made in these consolidated financial statements to comply with the ECL model requirements in all the periods presented.

7. REVENUE AND COST OF REVENUE

	31 December 2017 SR' 000	31 December 2016 SR' 000
Revenue		
Sale of properties	**1,215,665**	2,038,369
Others	**222,311**	229,402
	1,437,976	2,267,771
Cost of revenue		
Cost of properties	**(284,818)**	(827,190)
Others	**(330,804)**	(266,417)
	(615,622)	(1,093,607)

8. SELLING AND MARKETING EXPENSES

	31 December 2017 SR' 000	31 December 2016 SR' 000
Employee costs	**24,853**	37,935
Branding and launch expenses	**16,463**	39,683
Provision for doubtful debts (note 17)	**7,835**	21,885
Advertising and promotional expenses	**4,529**	5,646
Public relations	**3,006**	16,260
Others	**6,494**	3,617
	63,180	125,026

9. GENERAL AND ADMINISTRATION EXPENSES

	31 December 2017 SR' 000	31 December 2016 SR' 000
Employee costs	**174,440**	213,226
Professional charges	**36,752**	42,379
Communication and office expenses	**14,915**	11,451
Rent	**6,028**	5,828
Facility and city management services	**3,852**	5,171
Repairs and maintenance	**2,839**	2,929
Others	**13,675**	4,988
	252,501	285,972

10. OTHER INCOME

	31 December 2017 SR' 000	31 December 2016 SR' 000
Forfeiture of non-refundable deposit (see note (a) below)	**–**	45,221
Compensation from customer (see note (b) below)	**–**	96,238
Reimbursement of expenses (see note (c) below)	**54,469**	29,997
Amortization of unearned interest (see note (d) below)	**35,376**	11,092
Reversal of accruals no longer required	**7,926**	5,423
Others	**5,087**	10,798
	102,858	198,769

a) During 2016, the Parent Company forfeited non-refundable deposits, amounting to SR 45 million, received from potential buyers against sale of assets, classified as held for sale.

b) Compensation in respect of cancellation of development lease agreement by a customer, for the year ended 31 December 2016, amounting to SR 96 million, based on court decision. Out of the total amount, SR 24 million was received during the year ended 31 December 2016 and additional SR 24 million has been received by the Company during the year ended 31 December 2017. The balance receivable within twelve months, amounting to SR 24 million, is classified as current asset under "Accounts receivables and other current assets". The remaining SR 24 million which will be received after one year, as per the payment schedule, is classified as a long term receivable in the consolidated statement of financial position.

c) 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 54.46 million (2016: SR 29.9 million), incurred during the year, has been reimbursed and accounted for as an other income accordingly.

d) Unwinding of interest income on significant financing component amounting to SR 35.3 million (31 December 2016: SR 11 million).

11. EARNINGS PER SHARE

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

The earnings per share calculation is given below:

	31 December 2017 SR' 000	31 December 2016 SR' 000
Profit attributable to ordinary equity holders of the parent (SR'000)	**240,921**	719,683
Weighted average number of ordinary shares ('000)	**850,000**	850,000
Earnings per share (Saudi Riyals) – Basic and Diluted	**0.28**	0.85

12. PROPERTY AND EQUIPMENT

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

	useful live
Buildings	20-30 years
Heavy equipment & machinery	5-10 years
Office equipment	3 years
Infrastructure assets	10-30 years
Leasehold improvements	2 years
Furniture and fixtures	4 years
Motor vehicles	4 years

12. PROPERTY AND EQUIPMENT (continued)

	Freehold land SR'000	Buildings SR'000	Leasehold improvements SR'000	Heavy equipment & machinery SR'000	Furniture and fixtures SR'000	Office equipment SR'000	Motor vehicles SR'000	Infrastructure assets SR'000	Capital work in progress SR'000	Total SR'000
2017										
Cost:										
At the beginning of the year	**133,105**	**817,990**	**113,586**	**39,118**	**86,858**	**51,145**	**9,337**	**2,089,962**	**1,890,359**	**5,231,460**
Additions	**–**	**1,711**	**15,583**	**11,142**	**7,011**	**8,440**	**946**	**2,036**	**605,141**	**652,010**
Transfers	**–**	**146,526**	**–**	**–**	**–**	**–**	**–**	**238,551**	**(385,077)**	**–**
Transfer from investment properties (note 13)	**2,178**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,178**
Impairment (note (e) below)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(48,573)**	**(48,573)**
At the end of the year	**135,283**	**966,227**	**129,169**	**50,260**	**93,869**	**59,585**	**10,283**	**2,330,549**	**2,061,850**	**5,837,075**
Depreciation:										
At the beginning of the year	**–**	**164,297**	**29,299**	**19,618**	**45,090**	**34,613**	**4,877**	**270,628**	**–**	**568,422**
Charge for the year	**–**	**38,729**	**9,600**	**5,902**	**15,695**	**6,499**	**1,813**	**98,982**	**–**	**177,220**
At the end of the year	**–**	**203,026**	**38,899**	**25,520**	**60,785**	**41,112**	**6,690**	**369,610**	**–**	**745,642**
Net book value										
At 31 December 2017	**135,283**	**763,201**	**90,270**	**24,740**	**33,084**	**18,473**	**3,593**	**1,960,939**	**2,061,850**	**5,091,433**
2016										
Cost:										
At the beginning of the year	132,266	771,663	29,200	28,233	48,298	35,880	4,501	1,587,551	1,649,342	4,286,934
Additions	–	780	11,268	512	3,096	4,354	4,485	1,530	940,997	967,022
Transfers	–	48,404	73,118	10,373	35,464	10,911	351	500,881	(679,502)	–
Transfer from investment properties (note 13)	839	–	–	–	–	–	–	–	117,588	118,427
Transfers to development properties (note 16)	–	–	–	–	–	–	–	–	(138,066)	(138,066)
Disposals	–	(2,857)	–	–	–	–	–	–	–	(2,857)
At the end of the year	133,105	817,990	113,586	39,118	86,858	51,145	9,337	2,089,962	1,890,359	5,231,460
Depreciation:										
At the beginning of the year	–	132,574	22,318	16,389	29,082	28,317	3,611	189,300	–	421,591
Charge for the year	–	33,380	6,981	3,229	16,008	6,296	1,266	81,328	–	148,488
Relating to disposals	–	(1,657)	–	–	–	–	–	–	–	(1,657)
At the end of the year	–	164,297	29,299	19,618	45,090	34,613	4,877	270,628	–	568,422
Net book value										
At 31 December 2016	133,105	653,693	84,287	19,500	41,768	16,532	4,460	1,819,334	1,890,359	4,663,038
At 1 January 2016	132,266	639,089	6,882	11,844	19,216	7,563	890	1,398,251	1,649,342	3,865,343

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

	31 December 2017 SR' 000	31 December 2016 SR' 000
Cost of revenue	**24,852**	20,327
Other expenses	**152,368**	128,161
	177,220	148,488

b) Capital work in progress mainly represents construction costs in respect of the infrastructure and other projects at the King Abdullah Economic City.

c) Capital work in progress includes advances against services, amounting to SR 122 million (2016: SR 137.6 million).

d) Freehold land includes land, amounting to SR 135 million (2016: SR 133 million), related to infrastructure assets.

e) During the year, the Group has recorded an impairment loss of SR 48 million (2016: SR Nil) in respect of the projects, which are not actively pursued any further.

f) Property and equipment of the gross carrying amount of SR 140 million (2016: SR 108.5 million) are fully depreciated but are still in use.

g) As at 31 December 2017, an amount of SR 119.8 million (2016: SR 75 million) was capitalized as cost of borrowing for the construction of property and equipment.

13. INVESTMENT PROPERTIES

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

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

2017	Land SR'000	Buildings SR'000	Leasehold improvements SR'000	Infrastructure assets SR'000	Capital work-in-progress SR'000	Total SR'000
Cost:						
At the beginning of the year	**2,862,092**	**798,005**	**945**	**450,517**	**1,058,062**	**5,169,621**
Additions	**–**	**–**	**–**	**–**	**88,028**	**88,028**
Transfers	**–**	**210,462**	**–**	**–**	**(210,462)**	**–**
Transfer to development properties (note 16)	**(2,268)**	**–**	**–**	**–**	**–**	**(2,268)**
Transfer to property and equipment (note 12)	**(2,178)**	**–**	**–**	**–**	**–**	**(2,178)**
At the end of the year	**2,857,646**	**1,008,467**	**945**	**450,517**	**935,628**	**5,253,203**
Depreciation:						
At the beginning of the year	**–**	**67,226**	**945**	**44,229**	**–**	**112,400**
Charge for the year	**–**	**35,182**	**–**	**20,182**	**–**	**55,364**
At the end of the year	**–**	**102,408**	**945**	**64,411**	**–**	**167,764**
Net book value						
At 31 December 2017	**2,857,646**	**906,059**	**–**	**386,106**	**935,628**	**5,085,439**

13. INVESTMENT PROPERTIES (continued)

2016	Land SR'000	Buildings SR'000	Leasehold improvements SR'000	Infrastructure assets SR'000	Capital work-in-progress SR'000	Total SR'000
Cost:						
At the beginning of the year	2,865,387	719,907	945	433,673	1,247,147	5,267,059
Additions	–	1,108	–	1,857	136,855	139,820
Transfers	–	–	–	14,987	(14,987)	–
Transfer (to)/from development properties, net (note 16)	(2,456)	76,990	–	–	(193,365)	(118,831)
Transfer to property and equipment (note 12)	(839)	–	–	–	(117,588)	(118,427)
At the end of the year	2,862,092	798,005	945	450,517	1,058,062	5,169,621
Depreciation:						
At the beginning of the year	–	37,675	945	25,022	–	63,642
Charge for the year	–	29,551	–	19,207	–	48,758
At the end of the year	–	67,226	945	44,229	–	112,400
Net book value						
At 31 December 2016	2,862,092	730,779	–	406,288	1,058,062	5,057,221
At 1 January 2016	2,865,387	682,232	–	408,651	1,247,147	5,203,417

a) Greenfield land, measuring approximately 168 million square meters, has been earmarked for the master development of the KAEC. This includes land measuring approximately 37 million square meters which was contributed by a shareholder as part of its capital contribution for an agreed sum of SR 1,700 million in lieu of shares of the same value in the Company (note 21). The specific allocation of the Greenfield land to be used by different projects, which could be for sale or rental, has not yet been completed. Therefore, the Greenfield land and associated costs, amounting to SR 2,858 million (2016: SR 3,035 million), has been classified as investment property. No depreciation has been charged as these comprise only freehold land. Greenfield land includes 24.7 million square meters pledged in favour of the Ministry of Finance against a long-term loan of SR 5,000 million (note 24(a)). Loans obtained from commercial banks are also secured against KAEC Greenfield land. However, legal formalities pertaining to security of such additional borrowings are in progress (note 24(b)). Greenfield land, measuring 13.34 million square meters, has been earmarked for lease to industrial customers.

b) The fair value of the Group's investment property, as at 31 December 2017, has been arrived on the basis of the valuation exercise carried out by ValuStrat (Khabeer Altathmen Alaqaria), an independent valuer not related to the Group. ValuStrat is a firm licensed by the Taqeem (Saudi Authority for Accredited Valuers) and is also regulated by the Royal Institution of Chartered Surveyors ("RICS"). Valustrat holds appropriate qualifications and relevant experience in assessing the valuation for the relevant land and properties.

To determine the fair value of land with an undetermined future use, the valuer has conducted a dynamic residual valuation approach by calculating the maximum price that a hypothetical developer and investor would pay for the subject land to achieve acceptable hurdle rates based on the highest and best use of the land and in line with current market conditions. For other properties, the fair value has been determined based on the market comparative approach that reflects recent transaction prices for similar properties or capitalization of net income method. For the net income method, the market rentals of all lettable properties are assessed by reference to the rentals achieved for the same properties as well as similar properties in the neighbourhood. The capitalization rate is adopted by reference to the yield rates observed by the valuers for similar properties in the locality and adjusted based on the valuers' knowledge of the factors specific to the respective properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The Group uses the following hierarchy for determining and disclosing the fair values of its investment properties by valuation techniques:

	Level 1 SR'000	Level 2 SR'000	Level 3 SR'000	Total SR'000
2017	**–**	**53,972,099**	**–**	**53,972,099**

Any significant movement in the assumptions used for fair valuation of investment properties such as discount rate, yield, rental growth etc. would result in significantly lower/higher fair value of these assets.

c) Following is the breakup of investment properties, held for various purposes:

	31 December 2017 SR'000	31 December 2016 SR'000	1 January 2016 SR'000
Rental income	**2,227,008**	2,021,728	2,167,486
Currently undetermined future use	**2,858,431**	3,035,493	3,035,931
	5,085,439	5,057,221	5,203,417

d) As at 31 December 2017, an amount of SR 26.3 million (2016: 16.8 million) was capitalized as cost of borrowing for the construction of investment properties.

14. INTANGIBLE ASSETS

Intangible assets represent software that was previously classified as part of property and equipment under the SOCPA GAAP.

The movement in the intangible assets are as follows:

	31 December 2017 SR'000	31 December 2016 SR'000
Cost:		
At the beginning of the year	**74,429**	60,277
Additions	**8,817**	14,152
At the end of the year	**83,246**	74,429
Amortization:		
At the beginning of the year	**(54,979)**	(39,888)
Charge for the year	**(13,069)**	(15,091)
At the end of the year	**(68,048)**	(54,979)
Net book value	**15,198**	19,450

15. INVESTMENT IN EQUITY ACCOUNTED INVESTEES

	Effective ownership interest (%)			Balance as at		
	31 December 2017	31 December 2016	1 January 2016	31 December 2017 SR'000	31 December 2016 SR'000	1 January 2016 SR'000
Investment in Port Development Company ("PDC") (see note (a) below)	**50%**	50%	50%	**2,342,901**	2,339,496	2,341,479
Investment in Biyoutat Progressive Company for Real Estate Investment & Development ("Biyoutat") (see note (b) below)	**20%**	20%	–	**45,790**	45,790	–
				2,388,691	2,385,286	2,341,479

The equity accounted investees do not have any conventional investments or borrowings as at 31 December 2017 and 2016. There has been no interest income for the years ended 31 December 2017 and 2016.

15. INVESTMENT IN EQUITY ACCOUNTED INVESTEES (continued)

a) Port development company

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

	2017 SR'000	2016 SR'000
Balance at the beginning of the year	**2,339,496**	2,341,479
Share of results for the year, net of zakat charge	**31,462**	(1,983)
Share of other comprehensive loss	**(28,057)**	–
Balance at the end of the year	**2,342,901**	2,339,496

Quantitative information about each of the associate is as follows:

	Port Development Company		
	31 December 2017 SR'000	31 December 2016 SR'000	1 January 2016 SR'000
Non-current assets	**7,842,725**	7,245,037	5,962,735
Current assets	**297,435**	141,242	206,516
Non-current liabilities	**2,373,250**	1,792,112	3,274
Current liabilities	**491,286**	328,690	896,614
Equity	**5,275,624**	5,265,477	5,269,363
Group's share in equity – 50% (2016: 50 %, 1 January 2016: 50 %)	**2,637,812**	2,632,739	2,634,682
Elimination of share of profit on sale of land and commission income	**(287,714)**	(287,714)	(287,714)
Adjustments related to piecemeal acquisition and share of zakat	**(7,197)**	(5,529)	(5,489)
Group's carrying amount of the investment	**2,342,901**	2,339,496	2,341,479

	31 December 2017 SR'000	31 December 2016 SR'000
Revenue	**311,118**	147,895
Cost of revenue	**(139,847)**	(108,922)
GROSS PROFIT	**171,271**	38,973
EXPENSES		
General and administrative	**(83,193)**	(40,160)
Marketing	**(783)**	(441)
INCOME/(LOSS) FROM MAIN OPERATIONS	**87,295**	(1,628)
Share of loss of an equity accounted investee	**(1,631)**	(1,611)
Other income	**28,309**	11,321
Financial charges	**(47,712)**	(11,966)
NET INCOME/(LOSS) FOR THE YEAR	**66,261**	(3,884)
Other comprehensive loss to be reclassified to profit or loss in subsequent years	**(56,114)**	–
Total comprehensive income/(loss) for the year	**10,147**	(3,884)
Group's share of profit/(loss) for the year, net of related zakat charge	**31,462**	(1,983)
Group's share of other comprehensive loss for the year	**(28,057)**	–

On 14 Jumada Awal 1431H (corresponding to 29 April 2010), the Port Development Company ("PDC"), a Closed Joint Stock Company, was incorporated in the Kingdom of Saudi Arabia, which is engaged in development, operation and maintenance of the King Abdullah Port at KAEC (the Port). During 2011, the shareholders of PDC entered into an agreement, whereby, the shareholding structure and funding mechanism of PDC was agreed. As per the terms of the agreement, the Company's shareholding in PDC was agreed to be 34%. In 2012, to contribute a part of the equity funding under the agreement, the Parent Company invested SR 145 million in the form of land, infrastructure and other development cost.

On 8 October 2013, the shareholders of PDC resolved to increase the shareholding of the Parent Company to 74%. The shareholders further amended the agreement on 16 April 2014, reducing the shareholding of the Parent Company in PDC to 51%. On 17 July 2014, the shareholders of PDC amended the agreement, reducing the shareholding of Parent Company to 50%. Pursuant to the terms of the revised agreement, the shareholders of PDC have concluded that they have joint control over PDC and hence the management of the Company has classified the investment as "Investment in an equity accounted investee".

The Company has provided a corporate guarantee along with promissory notes to a commercial bank, limited to SR 1,350 million plus any murabaha profits due to be paid by the PDC, to allow PDC to secure Shariah compliant Murabaha facility to partially finance the construction costs of the Port. Moreover, the subject loan is also secured by pledge of the shares of the Company in PDC.

The Company has provided a corporate guarantee to a commercial bank to allow PDC to secure Shariah compliant commodity Murabaha facilities. During the year ended 31 December 2017, PDC has secured a Murabaha facility, amounting to SR 150 million, from commercial banks to finance its working capital requirements. In this connection, the Company has provided promissory notes, amounting to SR 75 million, plus any murabaha profits due to be paid by the PDC.

During the year ended 31 December 2017, PDC has used derivative financial instruments (interest rate swaps) to hedge its risks associated with interest rate fluctuations and entered into interest rate swaps (the "Swap Contracts"), with local commercial banks, to hedge future adverse fluctuation in interest rates on its long term loan.

Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value.

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

At 31 December 2017, the subject Swap Contracts had a negative fair value of SR 56.11 million, based on the valuation determined by a model and confirmed by PDC's bankers. Such fair value is included within non-current liabilities in the statement of financial position of PDC with a corresponding debit to its statement of changes in equity. The Group has recorded an amount of SR 28.06 million, within other comprehensive loss of the consolidated statement of profit or loss and other comprehensive income, being the portion of its share.

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

15. INVESTMENT IN EQUITY ACCOUNTED INVESTEES (continued)

b) Biyoutat progressive company for real estate investment & development

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

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

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

	31 December 2017 SR'000	31 December 2016 SR'000
Initial investment	**200**	200
Additional investment	**53,755**	53,755
Elimination of share of profit on sale of land	**(8,165)**	(8,165)
	45,790	45,790

16. DEVELOPMENT PROPERTIES

	31 December 2017 SR'000	31 December 2016 SR'000
Costs incurred to date	**1,493,476**	1,071,128
Additions	**561,998**	991,932
Transferred from property and equipment (note 12)	**–**	138,066
Transferred from investments properties (note 13)	**2,268**	118,831
	2,057,742	2,319,957
Transfer to cost of revenue (note 7)	**(284,818)**	(827,190)
Provision for development properties	**(3,526)**	709
	1,769,398	1,493,476

Development properties also include land, amounting to SR 168.9 million (2016: SR 195.8 million).

As at 31 December 2017, an amount of SR 103 million (2016: 74 million) was capitalized as cost of borrowing for the construction of development properties.

17. ACCOUNTS RECEIVABLES AND OTHER CURRENT ASSETS

	31 December 2017 SR'000	31 December 2016 SR'000	1 January 2016 SR'000
Gross accounts receivable	**659,569**	497,044	304,762
Less: Provision for doubtful debts (see notes below)	**(49,696)**	(45,356)	(23,471)
	609,873	451,688	281,291
Prepayments	**33,695**	25,099	27,811
Advances to suppliers	**21,022**	21,415	9,541
Commission receivable on Murabaha term deposits	**700**	3,023	4,726
Amounts due from related parties (note 28)	**9,900**	11,713	7,540
Others	**64,089**	50,947	17,117
	739,279	563,885	348,026

a) As at 31 December 2017, accounts receivable at nominal value of SR 49.6 million (2016: SR 45.5 million) were impaired. The unimpaired accounts receivables include SR 336 million (2016: SR 302 million) which are past due, more than normal collection cycle, but not impaired. Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. Accounts receivable in respect of sale of properties are secured by promissory notes and bank guarantees, accordingly not impaired.

b) Movements in the provision for doubtful debts is as follows:

	31 December 2017 SR'000	31 December 2016 SR'000
At the beginning of the year	**45,356**	23,471
Provision for the year (note 8)	**7,835**	21,885
Doubtful debts written-off	**(3,495)**	–
At the end of the year	**49,696**	45,356

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

			Past due but not impaired				
	Total SR'000	Neither Past due nor impaired SR'000	< 30 days SR'000	30–60 days SR'000	61–90 days SR'000	91–180 days SR'000	> 180 days SR'000
31 December 2017	**659,569**	**120,171**	**28,964**	**17,162**	**77,451**	**38,907**	**376,914**
31 December 2016	497,044	73,789	31,491	28,556	15,325	166,613	181,270
1 January 2016	304,762	136,485	19,620	23,869	21,588	22,179	81,021

18. MURABAHA TERM DEPOSITS WITH BANKS

	31 December 2017 SR'000	31 December 2016 SR'000	1 January 2016 SR'000
Murabaha deposits (note 19)	**1,501,910**	1,895,956	2,106,879
Short-term Murabaha deposits (note 19)	**(977,800)**	(898,956)	(1,093,900)
	524,110	997,000	1,012,979

19. CASH AND CASH EQUIVALENTS

	31 December 2017 SR'000	31 December 2016 SR'000	1 January 2016 SR'000
Cash and bank balances	**250,010**	278,440	804,951
Short-term Murabaha deposits (see note below and note 18)	**977,800**	898,956	1,093,900
	1,227,810	1,177,396	1,898,851

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

The Company is required to maintain certain deposits/balances at 5% of amount collected from customers against sale of development properties which are deposited into escrow accounts. The balance as of 31 December 2017 amounted to SR 3.2 million. These deposits/balances are not under lien.

20. EMPLOYEES' RECEIVABLE – HOME OWNERSHIP SCHEME

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

20. EMPLOYEES' RECEIVABLE – HOME OWNERSHIP SCHEME (continued)

	Gross receivable			Present value of gross receivable			Unearned interest income		
	31 December 2017 SR'000	31 December 2016 SR'000	1 January 2016 SR'000	**31 December 2017 SR'000**	31 December 2016 SR'000	1 January 2016 SR'000	**31 December 2017 SR'000**	31 December 2016 SR'000	1 January 2016 SR'000
Current portion	**4,779**	4,121	2,126	**2,795**	2,564	1,438	**1,984**	1,557	688
Non-current portion:									
One to five years	**19,111**	16,483	8,502	**12,032**	10,983	6,094	**7,079**	5,500	2,408
Over five years	**62,920**	53,291	26,028	**51,186**	44,455	22,278	**11,734**	8,836	3,750
	82,031	69,774	34,530	**63,218**	55,438	28,372	**18,813**	14,336	6,158
	86,810	73,895	36,656	**66,013**	58,002	29,810	**20,797**	15,893	6,846

21. SHARE CAPITAL

The Parent Company's share capital is divided into 850 million shares of SR 10 each (2016: 850 million shares of SR 10 each), allocated as follows:

	2017		2016	
	Number of shares	**Capital SR'000**	Number of shares	Capital SR'000
Issued for cash	**680,000,000**	**6,800,000**	680,000,000	6,800,000
Issued for consideration in kind (note 13(a))	**170,000,000**	**1,700,000**	170,000,000	1,700,000
	850,000,000	**8,500,000**	850,000,000	8,500,000

22. STATUTORY RESERVE

In accordance with the updated By-laws, approved by the shareholders during April 2017, the Company must set aside 10% of its net profit in each year, after setting-off its accumulated losses, if applicable, until it has built up a reserve equal to 30% of the share capital. The Company may resolve to discontinue such transfers when the reserve totals 30% of the share capital. The reserve is not available for distribution. As of 31 December 2017, the Company was in the process of finalizing the required procedures with the Ministry of Commerce and Investment to ratify these changes. However, subsequent to year end, the Ministry of Commerce and Investment has ratified these changes in By-laws of the Company.

23. EFFECT OF REDUCING THE OWNERSHIP PERCENTAGE IN A SUBSIDIARY

During 2013, the shareholders of IZDCL resolved to change the effective shareholding interest of the Company in IZDCL to be 98% in line with other group entities. The legal formalities in this respect had been completed during the year ended 31 December 2014. Consequently, the company held 4,950 shares representing 98% (effective) of IZDCL's share capital, compared to its previous shareholding of 100% (effective) of IZDCL's capital, prior to the transaction.

Due to the decrease of the Company's shareholding in IZDCL, the Company's share in the net asset of IZDCL has decreased and amount equivalent to SR 86,379 was recognized as an un-realized loss under equity.

24. LONG TERM LOANS

	31 December 2017 SR'000	31 December 2016 SR'000	1 January 2016 SR'000
Ministry of Finance ("MoF") loan (see note (a) below)	**5,000,000**	5,000,000	5,000,000
Others (see note (b) below)	**3,000,000**	2,500,000	2,100,000
	8,000,000	7,500,000	7,100,000
Less: Current portion of long term loans (see note (b) below)	**(650,000)**	–	–
Non-current portion of long term loans	**7,350,000**	7,500,000	7,100,000

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

b) During 2014, the Parent Company signed an Islamic facility agreement with a commercial bank for SR 2,000 million Murabaha liquidity finance facility that carries commission at commercial rates. The outstanding balance of the long term loan, as at 31 December 2017, amounted to SR 1,500 million (31 December 2016: SR 1,500 million). As per the terms of the agreement, the loan is repayable in eight bi-annual installments from 30 June 2018 to 31 December 2021. The installment due within twelve-month, amounting to SR 550 million is classified as a current liability. The loan is secured against part of KAEC's greenfield land, having a value of SR 3,002 million, held by the Parent Company and an order note for SR 2,500 million.

During 2015, the Parent Company signed an Islamic facility agreement with a commercial bank for SR 1,000 million that carries commission at commercial rates. The outstanding balance of the long term loan, as at 31 December 2017, amounted to SR 500 million (31 December 2016: SR nil). As per the terms of the agreement, the loan is repayable in eight bi-annual installments from 20 October 2019 to 20 April 2023. The loan is secured against part of KAEC's greenfield land, held by the Parent Company, for a total required value of SR 1,500 million, out of which 56% has already been perfected and remaining is in progress. The subject loan is further secured by an order note of SR 1,200 million.

During 2014 and 2015, the Company signed two facility agreements with a commercial bank for SR 1,000 million each carrying commission at prevailing commercial rates. The outstanding balance of the loan, as at 31 December 2017, amounted to SR 1,000 million (31 December 2016: SR 1,000 million). As per the terms of the agreements, the loan terms are door to door 8 years with 3 years grace period starting from respective dates of the agreements. In order to comply with the Sharia principles, an additional facility of SR 250 million has been arranged by the bank linked to each of the facility, to permit the rollover (repayment and drawdown) so that the principal amount is available to the Company for the first 3 years of the loan. The installment due within twelve-month, amounting to SR 100 million is classified as a current liability. The loan facilities are secured against part of KAEC's greenfield land for a total required value of SR 3,000 million, out of which 50% has already been perfected and remaining is in progress. Moreover, the subject loan facilities are further secured by an order note of SR 1,250 million each.

25. EMPLOYEES' TERMINAL BENEFITS

General Description of the plan

The Group operates an approved unfunded employees' terminal benefit ("ETB") plan for its employees as required by the Saudi Arabian Labour Law. The movement in ETB for the year ended is as follows:

	31 December 2017 SR'000	31 December 2016 SR'000
Balance at the beginning of the year	**43,205**	31,192
Included in consolidated statement of profit or loss		
Current service cost	**12,205**	9,194
Interest cost	**1,728**	1,403
	13,933	10,597
Included in consolidated statement of other comprehensive income		
Actuarial loss	**46**	3,076
Benefits paid	**(4,426)**	(1,660)
Balance at the end of the year	**52,758**	43,205

The difference between employees' terminal benefits under previous SOCPA GAAP and IFRS, as at 1 January 2016, amounting to SR 8 million, is recorded in the retained earnings (note 6(d)).

25. EMPLOYEES' TERMINAL BENEFITS (continued)

Actuarial assumptions

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

	31 December 2017 SR'000	31 December 2016 SR'000	1 January 2016 SR'000
Discount rate	**3.5%**	4%	4.5%
Expected rate of future salary increase			
– First three years	**4%**	4.75%	5%
– Thereafter	**4%**	4.75%	5%
Mortality rate	**1.17%**	1.17%	1.17%
Employee turnover rate	**7.50%**	7.50%	7.50%
Retirement age	**60 years**	60 years	60 years

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

		Impact on ETB liability Increase/(decrease)			
		31 December 2017		31 December 2016	
	Change in assumption by	Increase in rate SR'000	Decrease in rate SR'000	Increase in rate SR'000	Decrease in rate SR'000
Discount rate	1%	**(4,196)**	**4,843**	(3,541)	4,265
Expected rate of future salary increase	1%	**4,768**	**(4,215)**	4,103	(3,570)
Mortality rate	10%	**(15)**	**15**	(10)	18
Employee turnover rate	10%	**(505)**	**540**	(467)	557

26. ACCOUNTS PAYABLE AND ACCRUALS

	31 December 2017 SR'000	31 December 2016 SR'000	1 January 2016 SR'000
Trade accounts payable	**201,740**	117,940	114,806
Retentions payable	**233,111**	225,160	189,540
Amounts due to related parties (note 28)	**34,187**	29,916	29,413
Amounts to be donated for charitable purposes (see note below)	**55,650**	60,323	66,756
Advances from customers	**107,900**	87,003	199,599
Accrued expenses and other payables	**121,187**	116,605	90,141
Contract cost accruals	**117,252**	375,961	91,938
Accrued financial charges	**120,955**	120,585	74,153
Unearned interest income – Home Ownership Scheme (note 20)	**1,984**	1,557	688
	993,966	1,135,050	857,034

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.

27. ZAKAT

Charge for the year

	31 December 2017 SR'000	31 December 2016 SR'000
Current year provision	**51,465**	20,000
Adjustment related to prior years	**86,573**	–
Charge for the year	**138,038**	20,000

The provision for the year is based on individual zakat base of the Parent company and its subsidiaries.

Movement in provision

The movement in the zakat provision is as follows:

	31 December 2017 SR'000	31 December 2016 SR'000
At the beginning of the year	**29,319**	30,263
Charge for the year	**138,038**	20,000
Adjustment related to prior years	**(7,926)**	–
Payments during the year	**(6,345)**	(20,944)
At the end of the year	**153,086**	29,319

Status of assessments

The Parent Company – Emaar The Economic City

The General Authority of Zakat and Tax ("GAZT") issued Zakat assessments for the years 2006 to 2008 and claimed additional Zakat and withholding tax differences of SR 90.4 million in addition to delay penalty. The case was under review at the Bureau of Grievance ("BOG"). In compliance with the appeal procedures and without admitting the liability, the Company submitted a bank guarantee and paid under protest the withholding tax differences.

The BOG did not accept the grievance on the zakat case from the formal point of view. The Company filed a plea to the Royal court requesting the BOG to reconsider the verdict and restudy the case. The Plea was not accepted and filing of another Plea is currently under process.

The withholding tax case was also under review at the BOG. A decision was issued supporting the objection related to penalties. Subsequent to the year end, the Company has re-appealed to the BOG in respect of withholding tax differences.

The Company's zakat assessment for the years 2009 to 2011 was cleared. The Company filed the zakat returns for the years 2012 to 2016 and obtained the restricted zakat certificates.

Subsidiaries – ECIHC, IZDCL, REOM, REM, RED and EKC

ECIHC has finalized its zakat status up to the year 2012 and filed the zakat returns up to the year 2016. Unrestricted zakat certificates have been obtained up to the year 2016.

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 2016, and obtained the zakat certificates.

REOM and REM have filed their zakat returns for the period/years from 2013 to 2016 and obtained unrestricted zakat certificates.

RED has filed its zakat returns for the period/years from 2013 to 2016 and obtained facility letter as there was no revenue from operations.

EKC has filed the zakat return for the first period ended 31 December 2016 and obtained a facility letter as there was no revenue from operation.

28. 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 15, following are the significant related party transactions during the year and the related balances:

		Amounts of Transactions		Balance as at		
Related party	Nature of transactions	2017 SR' 000	2016 SR' 000	31 December 2017 SR' 000	31 December 2016 SR' 000	1 January 2016 SR' 000
Amounts due from related parties						
Affiliates	Lease rentals, utilities and service charges	**8,749**	9,209	**2,194**	2,324	990
	Sale of properties	**–**	53,755	**–**	2,966	3,907
	Advance against purchases/services	**–**	5,459	**–**	104	56
	Advance to contractor	**–**	–	**–**	6,063	2,488
Key management personnel	Sale of properties, utilities and service charges	**7,214**	43	**377**	256	99
Board of directors	Sale of properties, utilities and service charges	**6**	–	**7,329**	–	–
Total				**9,900**	11,713	7,540
Amounts due to related parties						
Affiliates	Expenses incurred on behalf of the Group	**890**	294	**(2,708)**	(2,675)	(2,710)
	Services provided to the Group	**26,269**	29,863	**(305)**	(728)	(2,479)
	Advance against sale of properties and leased units	**–**	–	**(8,533)**	–	–
	Purchase of goods	**523**	80	**–**	–	–
Key management personnel	Remuneration	**34,600**	38,669	**(18,991)**	(26,505)	(24,224)
Board of directors	Remuneration and meeting fees	**3,650**	3,462	**(3,650)**	(8)	–
Total				**(34,187)**	(29,916)	(29,413)

Compensation of key management personnel of the Group

	31 December 2017 SR'000	31 December 2016 SR'000
Short-term employee benefits	**24,816**	30,053
Non-monetary benefits	**823**	1,005
Post-employment benefits	**1,312**	1,729
Termination benefits	**1,767**	–
Other long-term benefits	**5,882**	5,882
	34,600	38,669

29. CONTINGENT LIABILITIES AND COMMITMENTS

In addition to disclosure set out in note 27, contingent liabilities and commitments, as at 31 December 2017, are described as below:

a) During the year ended 31 December 2017, the Company has signed a short-term facility agreement with a commercial bank for SR 250 million, carrying commission at prevailing commercial rates, in order to finance the working capital requirements. The subject loan facility is secured by a promissory note of SR 250 million.

b) The Group has outstanding commitments related to future expenditure for the development of KAEC in coming few years, amounting to SR 1,149 million (31 December 2016: SR 1,686 million).

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

d) Operating lease commitments:

Group as lessee

The Group has operating leases for office space and equipment. The leases are renewable at the expiry of lease period. The Group's obligation under the operating lease is as follows:

	31 December 2017 SR'000	31 December 2016 SR'000
Within one year	**837**	585
	837	585

Group as lessor

The Group has entered into leases on its investment property portfolio. The future minimum rentals receivable under non-cancellable operating leases contracted for as at the reporting date but not recognized as receivables, are as follows:

	31 December 2017 SR'000	31 December 2016 SR'000
Within one year	**53,924**	51,370
After one year but not more than five years	**204,442**	195,568
More than five years	**675,398**	686,565
	933,764	933,503

30. 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 (develop, own and/or manage hotels, serviced apartments and leisure activities). 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.

30. SEGMENTAL INFORMATION (continued)

Segments related Revenue and Profitability

For the year ended:	Residential business SR'000	Industrial development SR'000	Hospitality and leisure SR'000	Others SR'000	Total SR'000
31 December 2017					
Revenue	**692,261**	**598,702**	**62,260**	**84,753**	**1,437,976**
Results					
Operating profit/(loss) for the year	**351,765**	**453,037**	**(57,027)**	**(455,112)**	**292,663**
Unallocated other income/(expenses)					**96,199**
Profit before zakat					**388,862**
31 December 2016					
Revenue	1,351,525	716,866	104,404	94,976	2,267,771
Results					
Operating profit/(loss) for the year	496,152	581,409	3,245	(504,908)	575,898
Unallocated other income/(expenses)					166,152
Profit before zakat					742,050

31. FINANCIAL INSTRUMENTS RISK MANAGEMENT

Overview

The Group's activities may expose it to a variety of financial risks. The Group's overall risk management program focuses on robust liquidity management as well as monitoring of various relevant market variables, thereby consistently seeking to minimize potential adverse effects on the Group's financial performance.

The Group may expose to the following risks from its use of financial instruments:

a) Credit risk;
b) Commission rate risk;
c) Currency risk; and
d) Liquidity risk.

This note presents information about the Group's possible exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk and the Group's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. Group's senior management are responsible for developing and monitoring the Group's risk management policies and report regularly to the Board of Directors on their activities.

The Group's risk management policies (both formal and informal) are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Group's principal financial liabilities comprise of accounts payable and accruals and term loans. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include employees' receivable – home ownership scheme, receivables, murabaha term deposits with banks and cash and cash equivalents.

The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below:

a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is exposed to credit risk principally from its accounts receivables and other receivables including murabaha term deposits with banks.

The Group seeks to manage its credit risk with respect to customers by monitoring outstanding receivables. The sale agreements with customers provide that the title to the property is transferred to the customers only upon the receipt of complete sale price. The five largest customers account for 29% (2016: 14%) of outstanding accounts receivable at 31 December 2017. The Group manages its exposure to credit risk with respect to murabaha term deposits with banks by diversification and investing with counterparties with sound credit rating.

With respect to credit risk arising from the other financial assets of the Group, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Excessive risk of concentration

Concentration arises when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration of risk is managed through focus on the maintenance of a diversified portfolio.

b) Commission rate risk

Commission rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market commission rates.

The Group's exposure to the risk of changes in market commission rates may relate primarily to the Group's long term loans and murabaha term deposits with banks with floating commission rates. The Group manages the commission rate risk by regularly monitoring the commission rate profiles of its commission bearing financial instruments.

At the reporting date, the Group does not have any murabaha term deposits with banks at floating commission rates. Accordingly, only long term loans are exposed to floating commission rates.

Commission rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in commission rates on long term loans. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings, as follows:

	Increase/decrease in basis points	Effect on profit before zakat SR'000
2017	**+100**	**14,310**
	–100	**(14,310)**
2016	+100	14,310
	–100	(14,310)

The assumed movement in basis points for the commission rate sensitivity analysis is based on the currently observable market environment, showing a significantly higher volatility than in prior years.

c) Currency risk

Currency risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in foreign exchange rates. The Group did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars. As US Dollar is pegged to Saudi Riyal, the Group is not exposed to significant currency risk.

d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may be result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available through committed credit facilities to meet any future commitments.

31. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

Overview (continued)

d) **Liquidity risk** (continued)

The cash flows, funding requirements and liquidity of Group companies are monitored on a centralised basis, under the control of Group Treasury. The objective of this centralised system is to optimise the efficiency and effectiveness of the management of the Group's capital resources.

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

31 December 2017	Less than 3 months SR'000	3 to 12 months SR'000	More than 12 months SR'000	Total SR'000
Long term loans	–	**650,000**	**7,350,000**	**8,000,000**
Accounts payable and accruals	–	**884,082**	–	**884,082**
	–	**1,534,082**	**7,350,000**	**8,884,082**

31 December 2016	Less than 3 months SR'000	3 to 12 months SR'000	More than 12 months SR'000	Total SR'000
Long term loans	–	–	7,500,000	7,500,000
Accounts payable and accruals	–	1,046,490	–	1,046,490
	–	1,046,490	7,500,000	8,546,490

1 January 2016	Less than 3 months SR'000	3 to 12 months SR'000	More than 12 months SR'000	Total SR'000
Long term loans	–	–	7,100,000	7,100,000
Accounts payable and accruals	–	656,747	–	656,747
	–	656,747	7,100,000	7,756,747

32. CAPITAL MANAGEMENT

Capital includes equity attributable to the ordinary equity holders of the Parent Company. The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The primary objective of the Group's capital management strategy is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. At 31 December 2017, the Group's gearing ratio is 48% (2016: 47%).

In order to achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call borrowings. There have been no breaches of the financial covenants of any borrowings in the current year. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 31 December 2016.

33. 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 31 December 2017, 31 December 2016 and 1 January 2016, 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 31 December 2017, 31 December 2016 and 1 January 2016.

During the year ended 31 December 2017, there were no movements between the levels.

34. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

Changes in liabilities arising from financing activities, including long term loans and unearned financing component on long term receivables, are disclosed in the consolidated statement of cash flows.

35. MATERIAL PARTLY-OWNED SUBSIDIARIES

The following table summarizes the statement of financial position of these subsidiaries as at 31 December 2017. This information is based on the amounts before inter-company elimination.

	ECIHC SR'000	IZDCL SR'000	REOM SR'000	REM SR'000	RED SR'000
Total assets	**4,536,467**	**1,074,454**	**1,552,075**	**555,018**	**1,817,651**
Total liabilities	**3,891**	**40,665**	**129,480**	**38,554**	**282,733**
Total equity	**4,532,576**	**1,033,789**	**1,422,595**	**516,464**	**1,534,918**
Attributable to:					
Owner of the parent	**4,487,250**	**1,013,320**	**1,394,428**	**506,238**	**1,504,527**
Non-controlling interest	**45,326**	**20,469**	**28,167**	**10,226**	**30,391**

The following table summarizes the statement of financial position of these subsidiaries as at 31 December 2016. This information is based on the amounts before inter-company elimination.

	ECIHC SR'000	IZDCL SR'000	REOM SR'000	REM SR'000	RED SR'000
Total assets	4,659,016	803,340	1,376,003	580,125	1,131,681
Total liabilities	1,170	36,253	65,567	27,271	110,556
Total equity	4,657,846	767,087	1,310,436	552,854	1,021,125
Attributable to:					
Owner of the parent	4,611,268	751,899	1,284,489	541,907	1,000,907
Non-controlling interest	46,578	15,188	25,947	10,947	20,218

35. MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)

The following table summarizes the statement of financial position of these subsidiaries as at 1 January 2016. This information is based on the amounts before inter-company elimination.

	ECIHC SR'000	IZDCL SR'000	REOM SR'000	REM SR'000	RED SR'000
Total assets	3,753,659	809,528	1,379,610	594,031	1,093,418
Total liabilities	1,115	33,685	47,990	17,642	43,536
Total equity	3,752,544	775,843	1,331,620	576,389	1,049,882
Attributable to:					
Owner of the parent	3,715,019	760,481	1,305,254	564,976	1,029,094
Non-controlling interest	37,525	15,362	26,366	11,413	20,788

The following table summarizes the statement of profit and loss of these subsidiaries for the year ended 31 December 2017. This information is based on the amounts before inter-company elimination.

	ECIHC SR'000	IZDCL SR'000	REOM SR'000	REM SR'000	RED SR'000
Revenue	**5,700**	**93,973**	**81,438**	**34,139**	**–**
Profit/(loss) for the year	**(121,820)**	**29,447**	**(30,960)**	**(58,242)**	**(70,461)**
Total comprehensive (loss)/ income for the year	**(125,270)**	**28,702**	**(32,841)**	**(58,390)**	**(71,208)**
Attributable to:					
Owner of the parent	**(124,017)**	**28,134**	**(32,191)**	**(57,234)**	**(69,798)**
Non-controlling interest	**(1,253)**	**568**	**(650)**	**(1,156)**	**(1,410)**

The following table summarizes the statement of profit and loss of these subsidiaries as at 31 December 2016. This information is based on the amounts before inter-company elimination.

	ECIHC SR'000	IZDCL SR'000	REOM SR'000	REM SR'000	RED SR'000
Revenue	–	52,116	76,740	40,467	–
Loss for the year	(84,699)	(8,756)	(21,185)	(23,535)	(28,757)
Total comprehensive loss for the year	(84,699)	(8,756)	(21,185)	(23,535)	(28,757)
Attributable to:					
Owner of the parent	(83,852)	(8,583)	(20,766)	(23,069)	(28,188)
Non-controlling interest	(847)	(173)	(419)	(466)	(569)

36. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorized to issue by the Board of Directors on 26 March 2018, corresponding to 9 Rajab 1439H.

Designed and produced by Group Origin