EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS
31 December 2018

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Emaar The Economic City (A Saudi Joint Stock Company)

Opinion

We have audited the consolidated financial statements of Emaar The Economic City ("'the Company' or 'the Parent Company'") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the professional code of conduct and ethics that are 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 our opinion thereon, and we do not provide a separate opinion on these matters.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Emaar The Economic City (A Saudi Joint Stock Company) (continued)

The key audit matter	How our audit addressed the key audit matter
Revenue recognition Revenue is an important component of the Group's performance and profitability. 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 6 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 the 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 an 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 determine whether 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.

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Emaar The Economic City (A Saudi Joint Stock Company) (continued)

The key audit matter	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 11 & 12 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.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Emaar The Economic City (A Saudi Joint Stock Company) (continued)

Other matter

The consolidated financial statements of Emaar The Economic City for the year ended December 31, 2017 were audited by another auditor who expressed an unmodified opinion thereon vide their report dated March 27, 2018.

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the consolidated financial statements and our auditors' report thereon. The 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 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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 IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the applicable requirements of the Regulations for Companies 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 auditors' 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 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Emaar The Economic City (A Saudi Joint Stock Company) (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional scepticism 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 for 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, then we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Company 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 of Emaar The Economic City ("'the Company' or 'the Parent Company'") and its subsidiaries ("the Group").

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

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Emaar The Economic City (A Saudi Joint Stock Company) (continued)

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 auditors' 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 KPMG Al Fozan & Partners
Certified Public Accountants

Ebrahim Oboud Baeshen
License No. 382

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Jeddah, Rajab 20, 1440H
Corresponding to March 27, 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 SR'000	2017 SR'000
Revenue	6	**1,008,234**	1,437,976
Cost of revenue	6	**(669,827)**	(621,933)
GROSS PROFIT		**338,407**	816,043
EXPENSES			
Selling and marketing	7	**(81,742)**	(57,051)
General and administration	8	**(263,584)**	(243,669)
Impairment loss	11,16	**(49,835)**	(56,408)
Depreciation	11 (a)	**(186,514)**	(152,368)
Amortisation	13	**(12,443)**	(13,069)
(LOSS) / PROFIT FROM MAIN OPERATIONS		**(255,711)**	293,478
OTHER INCOME / (EXPENSES)			
Murabaha deposit income		**7,737**	15,953
Financial charges		**(59,653)**	(54,889)
Share of results of equity accounted investee	14 (a)	**26,130**	31,462
Other income	9	**209,909**	102,858
(LOSS) / PROFIT FOR THE YEAR BEFORE ZAKAT		**(71,588)**	388,862
Zakat	26	**(66,000)**	(138,038)
NET (LOSS) / PROFIT FOR THE YEAR		**(137,588)**	250,824
OTHER COMPREHENSIVE INCOME / (LOSS)			
Items that will be reclassified to consolidated statement of profit or loss in subsequent periods:			
Share of other comprehensive income / (loss) from equity accounted investee	14 (a)	**7,744**	(28,057)
Items that will not be reclassified to consolidated statement of profit or loss in subsequent periods:			
Re-measurement gain / (loss) on defined benefit plans	24	**183**	(46)
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR		**(129,661)**	222,721
NET (LOSS) / PROFIT FOR THE YEAR ATTRIBUTABLE TO:			
Equity holders of the Parent Company		**(135,085)**	240,921
Non-controlling interests		**(2,503)**	9,903
		(137,588)	250,824
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR ATTRIBUTABLE TO:			
Equity holders of the Parent Company		**(127,158)**	212,922
Non-controlling interests		**(2,503)**	9,799
		(129,661)	222,721
(LOSS) / EARNINGS PER SHARE			
Basic and diluted (loss) / earnings per share attributable to ordinary equity holders of the Parent Company (in SR per share)	10	**(0.16)**	0.28

The attached notes 1 to 35 form part of these consolidated financial statements.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	Notes	2018 SR'000	2017 SR'000
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	11	**5,517,751**	5,091,433
Investment properties	12	**5,132,148**	5,085,439
Development properties	15	**1,603,109**	1,499,074
Intangible assets	13	**18,616**	15,198
Investment in equity accounted investees	14	**2,422,565**	2,388,691
Employees' receivable - Home Ownership Scheme	19	**104,497**	82,031
Other long-term receivable		-	24,059
TOTAL NON-CURRENT ASSETS		**14,798,686**	14,185,925
CURRENT ASSETS			
Current portion of employees' receivable - Home Ownership Scheme	19	**6,278**	4,779
Unbilled revenue		**711,467**	423,655
Development properties	15	**411,098**	270,324
Accounts receivables and other current assets	16	**761,538**	733,074
Murabaha term deposits with banks	17	**50,000**	524,110
Cash and cash equivalents	18	**602,632**	1,227,810
TOTAL CURRENT ASSETS		**2,543,013**	3,183,752
TOTAL ASSETS		**17,341,699**	17,369,677
EQUITY AND LIABILITIES			
EQUITY			
Share capital	20	**8,500,000**	8,500,000
Statutory reserve	21	**11,536**	11,536
Accumulated losses		**(634,077)**	(502,261)
Effect of reducing the ownership percentage in a subsidiary	22	-	(86)
Equity attributable to the equity holders of the Parent Company		**7,877,459**	8,009,189
Non-controlling interests	4	-	(2,069)
TOTAL EQUITY		**7,877,459**	8,007,120

The attached notes 1 to 35 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
As at 31 December 2018

	Notes	2018 SR'000	2017 SR'000
NON-CURRENT LIABILITIES			
Long-term loans	23	**7,051,250**	7,350,000
Employees' terminal benefits	24	**64,220**	52,758
Unearned financing component on long term receivables		**69,493**	69,898
Unearned interest income - Home Ownership Scheme	19	**26,871**	18,813
TOTAL NON-CURRENT LIABILITIES		**7,211,834**	7,491,469
CURRENT LIABILITIES			
Accounts payable and accruals	25	**1,088,063**	1,068,002
Zakat payable	26	**156,843**	153,086
Current portion of long-term loans	23	**1,007,500**	650,000
TOTAL CURRENT LIABILITIES		**2,252,406**	1,871,088
TOTAL LIABILITIES		**9,464,240**	9,362,557
TOTAL EQUITY AND LIABILITIES		**17,341,699**	17,369,677

The attached notes 1 to 35 form part of these consolidated financial statements.

EMAAR THE ECONOMIC CITY (A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018

	Attributed to equity holders of the Parent Company						
	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 2018	8,500,000	11,536	(502,261)	(86)	8,009,189	(2,069)	8,007,120
Net loss for the year	-	-	(135,085)	-	(135,085)	(2,503)	(137,588)
Other comprehensive income for the year	-	-	7,927	-	7,927	-	7,927
Total comprehensive loss for the year	-	-	(127,158)	-	(127,158)	(2,503)	(129,661)
Acquisition of non-controlling interests (note 4)	-	-	(4,658)	86	(4,572)	4,572	-
Balance as at 31 December 2018	**8,500,000**	**11,536**	**(634,077)**	-	**7,877,459**	-	**7,877,459**
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

The attached notes 1 to 35 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2018

	Notes	2018 SR'000	2017 SR'000
OPERATING ACTIVITIES			
(Loss) / profit for the year before Zakat		**(71,588)**	388,862
Adjustments to reconcile profit for the year before Zakat to net cash flows:			
Depreciation	11 & 12	**292,991**	232,584
Impairment loss		**49,835**	56,408
Amortization	13	**12,443**	13,069
Financial charges		**59,653**	54,889
Share of results of equity accounted investees	14	**(26,130)**	(31,462)
Murabaha deposit income		**(7,737)**	(15,953)
Unwinding of unearned interest income		**(1,444)**	(332)
Employees' benefit expense – Home Ownership Scheme		**10,335**	5,236
Provision for development properties	15	**(1,329)**	3,526
Provision for employees' terminal benefits	24	**15,113**	13,933
		332,142	720,760
Working capital adjustments			
Employees' receivable – Home Ownership Scheme		**(32,857)**	(18,150)
Unbilled revenue, net		**(287,812)**	(332,932)
Development properties		**(201,826)**	(277,180)
Accounts receivables and other current assets		**(70,584)**	(179,346)
Other long-term receivable		**24,059**	24,059
Accounts payable and accruals		**(14,154)**	(75,343)
Cash used in operations		**(251,032)**	(138,132)
Financial charges paid		**(289,066)**	(293,937)
Zakat paid	26	**(62,243)**	(6,345)
Employees' terminal benefits paid	24	**(3,468)**	(4,426)
Net cash used in operating activities		**(605,809)**	(442,840)
INVESTING ACTIVITIES			
Net movement in Murabaha term deposits with banks		**474,110**	472,890
Murabaha deposit income		**7,929**	18,276
Additions made to property and equipment		**(392,516)**	(412,595)
Additions made to investment properties	12	**(159,434)**	(88,028)
Purchase of intangible assets	13	**(15,861)**	(8,817)
Net cash used in investing activities		**(85,772)**	(18,274)
FINANCING ACTIVITIES			
Net movement in long-term loans		**58,750**	500,000
Net movement in unearned interest income		**7,653**	11,528
Net cash from financing activities		**66,403**	511,528
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		**(625,178)**	50,414
Cash and cash equivalents at the beginning of the year	18	**1,227,810**	1,177,396
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	18	**602,632**	1,227,810

MAJOR NON-CASH TRANSACTIONS

Non-cash transactions are reflected in note 11, note 12 and note 15.

The attached notes 1 to 35 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”).

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

Branch	Commercial Registration Number
Jeddah	4030164269
Riyadh	1010937549
Rabigh	4602006934

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”).

2.2 Basis of measurement

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

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

2.3 Functional and presentation currency

The Group’s 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 judgements, 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.

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

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 judgements, 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 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 judgement 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 judgement, 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.

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

Judgements (continued)

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 24.

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.

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

Estimations and assumptions (continued)

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

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated:

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2018. 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Consolidation (continued)

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

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

Refer to note 14 for information related to equity accounted investees.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 consolidated 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue from contracts with customers for sale of properties (continued)

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.

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.

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 hospitality business, services and rental income is based on the 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Value added tax
The Group is subject to Value Added Tax ("VAT") for real estate business and other services except exempt supplies in accordance with the VAT regulations prevailing in the Kingdom of Saudi Arabia. The amount of VAT liability is determined by applying the applicable tax rate to the value of supply ("Output VAT") less VAT paid on purchases ("Input VAT"). The Group reports revenue and purchases net of VAT for all the periods presented in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. However, Input VAT related to exempt supplies is added to the cost of purchases whereas Input VAT related to mixed supplies is claimed using the Default Rate Formula.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

Recognition and measurement (continued)

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 consolidated 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)
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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

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.

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.

The operating cycle of development properties is such that the majority of development properties are expected to be realized beyond a period of 12 months from the reporting date. At each reporting date, the management categorizes the development properties as current or non-current based on their expected realisation date.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments

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, transaction costs that are directly attributable to the acquisition of the financial asset are added to the fair value of the respective 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Financial assets (continued)

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.

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 other income in the consolidated statement of profit or loss and other comprehensive income.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Defined benefit plans (continued)

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.

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 29.

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

A number of new standards are effective for annual periods beginning January 1, 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

Of those standards that are not yet effective, IFRS 16 is expected to have an impact on the Group's consolidated financial statements in the period of initial application.

a) IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 - Leases, IFRIC 4 - Determining whether an Arrangement contains a Lease, SIC-15 - Operating Leases-Incentives and SIC-27 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all the leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also 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, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

Transition to IFRS 16

The Group plans to apply IFRS 16 initially on 1 January 2019 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings, as at 1 January 2019, with no restatement of comparative information.

The Group is currently assessing the impact of adoption of IFRS 16 on its consolidated financial statements.

5. STANDARDS ISSUED AND NOT YET EFFECTIVE (continued)

b) Annual Improvements to IFRSs 2015–2017 Cycle

- IFRS 3 Business Combinations – A company remeasures its previously held interest in a joint operation when it obtains control of the business.

- IFRS 11 Joint Arrangements – A company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

- IAS 12 Income Taxes – A company accounts for all income tax consequences of dividend payments in the same way.

- IAS 23 Borrowing Costs – A company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

  The above annual improvements to IFRSs are not expected to have a significant impact on the Group's consolidated financial statements.

c) Other Amendments

The following amended standards and interpretations are not expected to have a significant impact on the Company's financial statements.

- IFRIC 23 Uncertainty over Tax Treatments.
- Prepayment Features with Negative Compensation (Amendments to IFRS 9).
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28).
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19).
- Amendments to References to Conceptual Framework in IFRS Standards.
- IFRS 17 - Insurance Contracts
- IFRS 3 - Definition of business
- IAS 1 and IAS 8 – Amendments in respect of definition of Materiality.

6. REVENUE AND COST OF REVENUE

	31 December 2018 SR' 000	*31 December 2017 SR' 000*
Revenue		
Sale of properties	**757,412**	1,215,665
Others	**250,822**	222,311
	1,008,234	1,437,976
Cost of revenue		
Cost of properties (note 15)	**(270,324)**	(284,818)
Others	**(399,503)**	(337,115)
	(669,827)	(621,933)

7. SELLING AND MARKETING EXPENSES

	31 December 2018 SR'000	*31 December 2017 SR'000*
Employees' costs	**25,432**	24,853
Branding and launch costs	**28,652**	17,924
Public relations	**7,149**	3,036
Advertising and promotion	**6,928**	4,698
Others	**13,581**	6,540
	81,742	57,051

8. GENERAL AND ADMINISTRATION EXPENSES

	31 December 2018 SR'000	*31 December 2017 SR'000*
Employees' costs	**173,606**	162,855
Professional charges	**34,837**	36,853
Communication and office costs	**20,032**	15,666
Facility and city management services	**12,618**	5,425
Rent	**6,187**	6,081
Repairs and maintenance	**4,677**	3,012
Others	**11,627**	13,777
	263,584	243,669

9. OTHER INCOME

	31 December 2018 SR'000	*31 December 2017 SR'000*
Reimbursement of expenses (see note (a) below)	**51,040**	54,469
Amortization of unearned interest (see note (b) below)	**30,807**	35,376
Reversal of accruals no longer required	**24,342**	7,926
Profit on disposal of investment properties (see note (c) below)	**84,114**	-
Others	**19,606**	5,087
	209,909	102,858

a) 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 51 million (2017: SR 54.46 million), incurred during the year, has been reimbursed and accounted for as an other income accordingly.

b) Unwinding of interest income on significant financing component amounting to SR 30.8 million (31 December 2017: SR 35.3 million).

c) During the year, the Group has entered into agreements with certain customers for the sale of investment properties resulting in a gain of SR 84 million.

10. (LOSS) / 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.

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. Moreover, no separate earning per share calculation from continuing operations has been presented since there were no discontinued operations during the year.

The (loss) / earnings per share calculation is given below:

	31 December 2018 SR'000	*31 December 2017 SR'000*
(Loss) / profit attributable to ordinary equity holders of the parent	**(135,085)**	240,921
Weighted average number of ordinary shares ('000)	**850,000**	850,000
(Loss) / earnings per share (Saudi Riyals) – Basic and Diluted	**(0.16)**	0.28

11. PROPERTY AND EQUIPMENT

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

Buildings	20-50 years	Leasehold improvements	2 – 10 years
Heavy equipment & machinery	5-10 years	Furniture and fixtures	4 years
Office equipment	3 years	Motor vehicles	4 years
Infrastructure assets	10-30 years		

	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 2018 SR'000***
Cost:										
At the beginning 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**
Additions	-	481	17,554	5,112	4,022	9,338	187	1,329	618,121	**656,144**
Transfers	-	170,858	-	7,831	37,451	10,509	4,449	698,680	(929,778)	-
Transfer from investment properties (note 12)	-	-	-	-	-	-	-	-	17,051	**17,051**
Impairment (note (e) below)	-	-	-	-	-	-	-	-	(7,909)	**(7,909)**
At the end of the year	135,283	1,137,566	146,723	63,203	135,342	79,432	14,919	3,030,558	1,759,335	**6,502,361**
Depreciation:										
At the beginning of the year	-	203,026	38,899	25,520	60,785	41,112	6,690	369,610	-	**745,642**
Charge for the year	-	39,692	17,958	7,952	30,692	17,706	3,549	121,419	-	**238,968**
At the end of the year	-	242,718	56,857	33,472	91,477	58,818	10,239	491,029	-	**984,610**
Net book value										
At 31 December 2018	**135,283**	**894,848**	**89,866**	**29,731**	**43,865**	**20,614**	**4,680**	**2,539,529**	**1,759,335**	**5,517,751**

11. 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 2017 SR'000*
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 12)	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

11. PROPERTY AND EQUIPMENT (continued)

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

	31 December 2018 SR'000	*31 December 2017 SR'000*
Cost of revenue	**52,454**	24,852
Others	**186,514**	152,368
	238,968	177,220

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 198 million (2017: SR 122 million).

d) Freehold land amounting to SR 135 million (2017: SR 135 million), mainly relates to infrastructure assets.

e) During the year, the Group has recorded an impairment loss of SR 7.9 million (2017: SR 48 million) in respect of the projects, which are not actively pursued any further.

f) Property and equipment with the gross carrying amount of SR 185.5 million (2017: SR 140 million) are fully depreciated but are still in use.

g) As at 31 December 2018, an amount of SR 108.8 million (2017: SR 119.8 million) was capitalized as borrowing cost for the construction of property and equipment.

12. INVESTMENT PROPERTIES

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

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

	Land *SR'000*	*Buildings* *SR'000*	*Leasehold improvements* *SR'000*	*Infrastructure assets* *SR'000*	*Capital work-in-progress* *SR'000*	***Total 2018*** ***SR'000***
Cost:						
At the beginning of the year	2,857,646	1,032,797	945	435,530	926,285	**5,253,203**
Additions	-	-	-	-	159,434	**159,434**
Transfers	-	-	-	2,753	(2,753)	**-**
Disposal	(2,861)	(7,668)	-	(2,753)	-	**(13,282)**
Transfer to development properties (note 15)	(29,577)	-	-	-	-	**(29,577)**
Transfer to property and equipment (note 11)	-	-	-	-	(17,051)	**(17,051)**
At the end of the year	2,825,208	1,025,129	945	435,530	1,065,915	**5,352,727**
Depreciation:						
At the beginning of the year	-	101,249	945	65,570	-	**167,764**
Charge for the year	-	36,776	-	17,247	-	**54,023**
Disposal	-	(1,208)	-	-	-	**(1,208)**
At the end of the year	-	136,817	945	82,817	-	**220,579**
Net book value						
At 31 December 2018	**2,825,208**	**888,312**	-	**352,713**	**1,065,915**	5,132,148

12. INVESTMENT PROPERTIES (continued)

	Land *SR'000*	*Buildings* *SR'000*	*Leasehold improvements* *SR'000*	*Infrastructure assets* *SR'000*	*Capital work-in-progress* *SR'000*	*Total 2017* *SR'000*
Cost:						
At the beginning of the year	2,862,092	822,335	945	435,530	1,048,719	5,169,621
Additions	-	-	-	-	88,028	88,028
Transfers	-	210,462	-	-	(210,462)	-
Transfer to development properties (note 15)	(2,268)	-	-	-	-	(2,268)
Transfer to property and equipment (note 11)	(2,178)	-	-	-	-	(2,178)
At the end of the year	2,857,646	1,032,797	945	435,530	926,285	5,253,203
Depreciation:						
At the beginning of the year	-	66,067	945	45,388	-	112,400
Charge for the year	-	35,182	-	20,182	-	55,364
At the end of the year	-	101,249	945	65,570	-	167,764
Net book value						
At 31 December 2017	2,857,646	931,548	-	369,960	926,285	5,085,439

12. INVESTMENT PROPERTIES (continued)

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 20). 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 2,825 million (2017: SR 2,858 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 23(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 23(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 2018, 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*
2018	**-**	**47,738,807**	**-**	**47,738,807**
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.

12. INVESTMENT PROPERTIES (continued)

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

	2018	*2017*
	SR'000	*SR'000*
Rental income	**2,306,940**	2,227,793
Currently undetermined future use	**2,825,208**	2,857,646
	5,132,148	5,085,439

d) As at 31 December 2018, an amount of SR 37.83 million (2017: 26.3 million) was capitalized as cost of borrowing for the construction of investment properties.

13. INTANGIBLE ASSETS

The movement in the intangible assets are as follows:

	31 December 2018	*31 December 2017*
	SR'000	*SR'000*
Cost:		
At the beginning of the year	**83,246**	74,429
Additions	**15,861**	8,817
At the end of the year	**99,107**	83,246
Amortization:		
At the beginning of the year	**(68,048)**	(54,979)
Charge for the year	**(12,443)**	(13,069)
At the end of the year	**(80,491)**	(68,048)
Net book value	**18,616**	15,198

14. INVESTMENT IN EQUITY ACCOUNTED INVESTEES

	Effective ownership interest (%)		*Balance as at*	
	31 December 2018	*31 December 2017*	***31 December 2018 SR'000***	*31 December 2017 SR'000*
Investment in Port Development Company ("PDC") (see note (a) below)	**50%**	50%	**2,376,775**	2,342,901
Investment in Biyoutat Progressive Company for Real Estate Investment & Development ("Biyoutat") (see note (b) below)	**20%**	20%	**45,790**	45,790
			2,422,565	2,388,691

a) PORT DEVELOPMENT COMPANY

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

	2018 SR'000	*2017 SR'000*
Balance at the beginning of the year	**2,342,901**	2,339,496
Share of results for the year, net of Zakat charge	**26,130**	31,462
Share of other comprehensive income / (loss)	**7,744**	(28,057)
Balance at the end of the year	**2,376,775**	2,342,901

Quantitative information of PDC is as follows:

	31 December 2018 SR'000	*31 December 2017 SR'000*
Non-current assets	**7,900,555**	7,846,806
Current assets	**457,100**	295,524
Non-current liabilities	**(2,439,445)**	(2,375,419)
Current liabilities	**(585,494)**	(491,286)
Equity	**5,332,716**	5,275,625
Group's share in equity – 50% (2017: 50 %)	**2,666,358**	2,637,812
Elimination of share of profit on sale of land and commission income	**(287,714)**	(287,714)
Adjustments related to piecemeal acquisition and share of Zakat	**(1,869)**	(7,197)
Group's carrying amount of the investment	**2,376,775**	2,342,901

14. INVESTMENT IN EQUITY ACCOUNTED INVESTEES (continued)

a) PORT DEVELOPMENT COMPANY (continued)

	31 December 2018 SR SR'000	*31 December 2017 SR SR'000*
Revenue	**317,844**	311,118
NET INCOME FOR THE YEAR	**55,110**	66,261
Other comprehensive income / (loss) to be reclassified to profit or loss in subsequent years	**15,490**	(56,114)
Total comprehensive income for the year	**70,600**	10,147
Group's share of profit for the year, net of related Zakat charge	**26,130**	31,462
Group's share of other comprehensive income / (loss) for the year	**7,744**	(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. The subject facility has been enhanced to SR 180 million during 2018.

14. INVESTMENT IN EQUITY ACCOUNTED INVESTEES (continued)

a) PORT DEVELOPMENT COMPANY (continued)

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

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

PDC designated the Swap Contracts, at its outset, as a cash flow hedge. The Swap Contracts are intended to effectively convert the interest rate cash 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 2018, the subject Swap Contracts had a negative fair value of SR 40.62 million (2017: 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 statement of profit and loss and other comprehensive income. The Group has recorded an amount of SR 7.7 million (2017: SR 28.06 million), within other comprehensive income / (loss) of the consolidated statement of profit or loss and other comprehensive income, being the portion of its share.

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

b) 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 Shareholders' agreement, the Company has also made an additional investment of SR 54 million for the development of the project. Furthermore, during 2016, the Company sold a piece of land to Biyoutat, amounting to SR 54 million. Since Biyoutat has not started its operations, the share of results of Biyoutat for the year are considered insignificant for the Group.

14. INVESTMENT IN EQUITY ACCOUNTED INVESTEES (continued)

b) BIYOUTAT PROGRESSIVE COMPANY FOR REAL ESTATE INVESTMENT & DEVELOPMENT (continued)

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

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

15. DEVELOPMENT PROPERTIES

	31 December 2018 SR'000	*31 December 2017 SR'000*
Costs incurred to date	**1,769,398**	1,493,476
Additions	**486,885**	561,998
Transferred from investments properties (note 12)	**29,577**	2,268
	2,285,860	2,057,742
Transfer to cost of revenue (note 6)	**(270,324)**	(284,818)
Provision for development properties	**(1,329)**	(3,526)
	2,014,207	1,769,398
Current portion of development properties	**(411,098)**	(270,324)
Non-current portion of development properties	**1,603,109**	1,499,074

Development properties include land amounting to SR 176.8 million (2017: SR 168.9 million).

As at 31 December 2018, an amount of SR 128 million (2017: SR 103 million) was capitalized as cost of borrowing for the construction of development properties.

16. ACCOUNTS RECEIVABLES AND OTHER CURRENT ASSETS

	31 December 2018 SR'000	*31 December 2017 SR'000*
Gross accounts receivable	**647,204**	659,569
Less: Provision for doubtful debts (see notes below)	**(86,411)**	(49,696)
	560,793	609,873
Prepayments	**41,772**	33,695
Advances to suppliers	**32,232**	21,022
VAT receivable	**31,394**	-
Contribution receivable	**18,427**	2,215
Commission receivable on Murabaha term deposits	**508**	700
Amounts due from related parties (note 27)	**15,053**	9,900
Others	**61,359**	55,669
	761,538	733,074

a) As at 31 December 2018, accounts receivable at nominal value of SR 86.4 million (2017: SR 49.6 million) were impaired. The unimpaired accounts receivables include SR 403 million (2017: SR 336 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 2018 SR'000	*31 December 2017 SR'000*
At the beginning of the year	**49,696**	45,356
Provision for the year	**37,200**	7,835
Doubtful debts written-off	**(485)**	(3,495)
At the end of the year	**86,411**	49,696

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

		Neither	***Past due but not impaired***				
	Total SR'000	***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 2018	**647,204**	**47,169**	**18,038**	**35,695**	**17,034**	**50,854**	**478,414**
31 December 2017	659,569	120,171	28,964	17,162	77,451	38,907	376,914

c) Future commitment of receivables against signed sales contracts as of 31 December 2018, amounted to SR 1,269.8 million.

17. MURABAHA TERM DEPOSITS WITH BANKS

	31 December 2018 SR'000	*31 December 2017 SR'000*
Murabaha deposits (note 18)	**598,655**	1,501,910
Short-term Murabaha deposits (note 18)	**(548,655)**	(977,800)
	50,000	524,110

18. CASH AND CASH EQUIVALENTS

	31 December 2018 SR'000	*31 December 2017 SR'000*
Cash and bank balances	**53,977**	250,010
Short-term Murabaha deposits (see note below and note 17)	**548,655**	977,800
	602,632	1,227,810

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 2018 amounted to SR 11.7 million (2017: SR 3.2 million). These deposits/balances are not under lien.

19. 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.

	31 December 2018 SR'000	*31 December 2017 SR'000*	***31 December 2018 SR'000***	*31 December 2017 SR'000*	***31 December 2018 SR'000***	*31 December 2017 SR'000*
	Gross receivable		***Present value of gross receivable***		***Unearned interest income***	
Current portion	**6,278**	4,779	**3,462**	2,795	**2,816**	1,984
Non-current portion:						
One to five years	**25,111**	19,111	**15,033**	12,032	**10,078**	7,079
Over five years	**79,386**	62,920	**62,593**	51,186	**16,793**	11,734
	104,497	82,031	**77,626**	63,218	**26,871**	18,813
	110,775	86,810	**81,088**	66,013	**29,687**	20,797

20. SHARE CAPITAL

The Parent Company's share capital is divided into 850 million shares of SR 10 each (2017: 850 million shares of SR 10 each), allocated as follows:

	2018		*2017*	
	***Number of Shares'* 000**	***Capital SR'000***	*Number of Shares'* 000	*Capital SR'000*
Issued for cash	**680,000**	**6,800,000**	680,000	6,800,000
Issued for consideration in kind (note 12(a))	**170,000**	**1,700,000**	170,000	1,700,000
	850,000	**8,500,000**	850,000	8,500,000

21. STATUTORY RESERVE

In accordance with the 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. Since the Company has incurred net loss for the year, no such transfer has been made.

22. 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. During the year, the Company has acquired remaining 1% shareholding in IZDCL, thereby resulting in settlement of SR 86,379 in favour of the Company (see note 4).

23. TERM LOANS

	31 December 2018 SR'000	*31 December 2017 SR'000*
Ministry of Finance ("MoF") loan (see note (a) below)	**5,000,000**	5,000,000
Others (see note (b) below)	**2,908,750**	3,000,000
	7,908,750	8,000,000
Current portion of long-term loans (see note (b) below)	**(857,500)**	(650,000)
Non-current portion of long term loans	**7,051,250**	7,350,000
Short-term loan (see note (c) below)	**150,000**	-
Current portion of long term loans (see note (b) below)	**857,500**	650,000
	1,007,500	650,000

23. TERM LOANS (continued)

(a) During 2011, the Parent Company received a loan of SR 5,000 million from the Ministry of Finance ("MoF") for the development of KAEC. The loan is secured against pledge of 24.7 million sqm of the Greenfield land and carries annual commission at commercial rates and was originally repayable, with a three years grace period, in seven annual installments commencing from 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 2018, amounted to SR 1,508.75 million (31 December 2017: SR 1,500 million). As per the terms of the agreement, the loan is repayable in eight bi-annual installments from 30 June 2018 to 31 December 2021. The installment due within twelve-month, amounting to SR 532.5 million is classified as a current liability. The loan is secured against part of KAEC's greenfield land, having a value of SR 3,002 million, held by the Parent Company and an order note for SR 2,500 million.

During 2015, the Parent Company signed an Islamic facility agreement with a commercial bank for SR 1,000 million that carries commission at commercial rates. The outstanding balance of the long term loan, as at 31 December 2018, amounted to SR 500 million (31 December 2017: SR 500 million). As per the terms of the agreement, the loan is repayable in eight bi-annual installments from 20 October 2019 to 20 April 2023. The installment due within twelve-month, amounting to SR 125 million is classified as a current liability. The loan is secured against part of KAEC's greenfield land, held by the Parent Company, for a total required value of SR 1,500 million, out of which 56% has already been perfected and remaining is in progress. The subject loan is further secured by an order note of SR 1,200 million.

During 2014 and 2015, the Company signed two facility agreements with a commercial bank for SR 1,000 million each carrying commission at prevailing commercial rates. The outstanding balance of the loan, as at 31 December 2018, amounted to SR 900 million (31 December 2017: SR 1,000 million). As per the terms of the agreements, the loan terms are door to door 8 years with 3 years grace period starting from respective dates of the agreements. In order to comply with the Sharia principles, an additional facility of SR 250 million has been arranged by the bank linked to each of the facility, to permit the rollover (repayment and drawdown) so that the principal amount is available to the Company for the first 3 years of the loan. The installment due within twelve-month, amounting to SR 200 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.

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

24. 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 2018 SR'000	*31 December 2017 SR'000*
Balance at the beginning of the year	**52,758**	43,205
Included in consolidated statement of profit or loss		
Current service cost	**13,257**	12,205
Interest cost	**1,856**	1,728
	15,113	13,933
Included in consolidated statement of other comprehensive income		
Actuarial (gain) / loss	**(183)**	46
Benefits paid	**(3,468)**	(4,426)
Balance at the end of the year	**64,220**	52,758

Actuarial assumptions

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

	31 December 2018	*31 December 2017*
Discount rate	**4.38%**	3.5%
Expected rate of future salary increase		
- First three years	**5%**	4%
- Thereafter	**5%**	4%
Mortality rate	**1.17%**	1.17%
Employee turnover rate	**7.50%**	7.50%
Retirement age	**60 years**	60 years

24. EMPLOYEES' TERMINAL BENEFITS (continued)

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 2018		*31 December 2017*	
	Change in assumption by	***Increase in rate***	***Decrease in rate***	*Increase in rate*	*Decrease in rate*
		SR'000	***SR'000***	*SR'000*	*SR'000*
Discount rate	1%	**(4,753)**	**5,481**	(4,196)	4,843
Expected rate of future salary increase	1%	**5,391**	**(4,769)**	4,768	(4,215)
Mortality rate	10%	**(17)**	**17**	(15)	15
Employee turnover rate	10%	**(586)**	**628**	(505)	540

25. ACCOUNTS PAYABLE AND ACCRUALS

	31 December 2018 SR'000	*31 December 2017 SR'000*
Trade accounts payable	**312,714**	201,740
Retentions payable	**200,484**	233,111
Amounts due to related parties (note 27)	**23,053**	34,187
Amounts to be donated for charitable purposes (see note below)	**49,847**	55,650
Advances from customers	**122,734**	179,720
Accrued expenses and other payables	**103,625**	123,403
Contract cost accruals	**117,620**	117,252
Accrued financial charges	**155,170**	120,955
Unearned interest income - Home Ownership Scheme (note 19)	**2,816**	1,984
	1,088,063	1,068,002

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.

26. ZAKAT

Charge for the year

	31 December 2018 SR'000	*31 December 2017 SR'000*
Current year provision	**66,000**	51,465
Adjustment related to prior years	-	86,573
Charge for the year	**66,000**	138,038

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 2018 SR'000	*31 December 2017 SR'000*
At the beginning of the year	**153,086**	29,319
Charge for the year	**66,000**	138,038
Adjustment related to prior years	-	(7,926)
Payments during the year	**(62,243)**	(6,345)
At the end of the year	**156,843**	153,086

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 by the BOG and they maintained the previous decision.

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

The Company's Zakat assessment for the years 2009 to 2011 was finalized and final certificate obtained. The Company filed the Zakat returns for the years 2012 to 2017 and obtained the restricted Zakat certificates.

26. ZAKAT (continued)

<u>Subsidiaries – ECIHC, IZDCL, REOM, REM, RED and EKC</u>
ECIHC has finalized its Zakat status up to the year 2012 and filed the Zakat returns up to the year 2017. Unrestricted Zakat certificates have been obtained up to the year 2017.

IZDCL has finalised its Zakat status up to the year 2012. The GAZT issued the Zakat assessment for the years 2013 to 2015 and claimed Zakat differences of SR 4.6 million. IZDCL objected against the GAZT assessment. Furthermore, IZDCL filed the Zakat returns up to the year 2017 and obtained the Zakat certificates.

REOM and REM have filed their Zakat returns for the period / years from 2013 to 2017 and obtained unrestricted Zakat certificates.

RED has filed its Zakat returns for the period / years from 2013 to 2017 and obtained un-restricted Zakat certificate.

EKC has filed the Zakat return for the period / years from 2016 to 2017 and obtained un-restricted Zakat certificate.

27. 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 14, following are the significant related party transactions during the year and the related balances:

Related party	*Nature of transactions*	*Amounts of Transactions*		*Balance as at*	
		2018	*2017*	***31 December 2018***	*31 December 2017*
		SR' 000	*SR' 000*	***SR' 000***	*SR' 000*
Amounts due from related parties					
Affiliates	Lease rentals, utilities and service charges	**8,557**	8,749	**10,182**	2,194
	Sale of properties	**27,762**	-	**-**	-
Key management personnel	Sale of properties, utilities and service charges	**186**	7,214	**203**	377
Board of directors	Sale of properties, utilities and service charges	**580**	6	**4,668**	7,329
Total				**15,053**	9,900
Amounts due to related parties					
Affiliates	Expenses incurred on behalf of the Group	**-**	890	**(2,708)**	(2,708)
	Services provided to the Group	**4,187**	26,269	**(305)**	(305)
	Advance against sale of properties and leased units	**-**	-	**(7,965)**	(8,533)
	Purchase of goods	**276**	523	**-**	-
Key management personnel	Remuneration	**23,197**	34,600	**(7,875)**	(18,991)
Board of directors	Remuneration and meeting fees	**4,200**	3,650	**(4,200)**	(3,650)
Total				**(23,053)**	(34,187)

27. RELATED PARTY DISCLOSURE (continued)

Compensation of key management personnel of the Group

	31 December 2018 SR' 000	*31 December 2017 SR' 000*
Short-term employee benefits	**15,981**	24,816
Non-monetary benefits	**401**	823
Post-employment benefits	**2,434**	1,312
Termination benefits	**2,375**	1,767
Other long-term benefits	**2,006**	5,882
	23,197	34,600

28. CONTINGENT LIABILITIES AND COMMITMENTS

In addition to disclosure set out in note 14, 23 and 26, contingent liabilities and commitments, as at 31 December 2018, are described as below:

(a) The Group has outstanding commitments related to future expenditure for the development of KAEC in coming few years, amounting to SR 1,271 million (31 December 2017: SR 1,149 million).

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

(c) Operating lease commitments:

Group as lessee

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

	31 December 2018 SR' 000	*31 December 2017 SR' 000*
Within one year	**2,115**	2,890
After one year but not more than five years	**39,928**	8,348
More than five years	**49,238**	-
	91,281	11,238

28. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Group as lessor

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

	31 December 2018 SR' 000	*31 December 2017 SR' 000*
Within one year	**53,740**	53,924
After one year but not more than five years	**201,941**	204,442
More than five years	**617,315**	675,398
	872,996	933,764

29. SEGMENTAL INFORMATION

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

Business Segments

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

Segments related Revenue and Profitability

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 2018					
Revenue	**561,626**	**251,047**	**49,109**	**146,452**	**1,008,234**
Results					
Operating profit / (loss) for the year	**137,143**	**173,761**	**(85,602)**	**(481,013)**	**(255,711)**
Unallocated other income / (expenses)					**184,123**
Loss before Zakat					**(71,588)**
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	(56,211)	(455,113)	293,478
Unallocated other income / (expenses)					95,384
Profit before Zakat					388,862

30. 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 an overall responsibility for the establishment and oversight of the Group's risk management framework. The 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, other liabilities and term loans. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include investment in equity accounted investees, 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 along with murabaha term deposits with banks.

30. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

a) Credit risk (continued)

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 12.3% (2017: 29%) of outstanding accounts receivable as at 31 December 2018. 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*
2018	**+100**	**14,310**
	-100	**(14,310)**
2017	+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.

30. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

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.

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 2018	***Less than 3 months SR'000***	***3 to 12 months SR'000***	***More than 12 months SR'000***	***Total SR'000***
Long-term loans	**150,000**	**857,500**	**7,051,250**	**8,058,750**
Accounts payable and accruals	**-**	**962,513**	**-**	**962,513**
	150,000	**1,820,013**	**7,051,250**	**9,021,263**

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	-	886,298	-	886,298
	-	1,536,298	7,350,000	8,886,298

31. 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 2018, the Group's gearing ratio is 50% (2017: 48%).

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 2018 and 31 December 2017.

32. 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.

32. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

As at 31 December 2018 and 31 December 2017, 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 accounts receivables as at 31 December 2018 and 31 December 2017.

During the year ended 31 December 2018, there were no movements between the levels.

33. 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.

34. MATERIAL PARTLY-OWNED SUBSIDIARIES

The following table summarizes the statement of financial position of these subsidiaries as at 31 December 2018. 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	**4,411,353**	**1,169,945**	**1,480,816**	**547,564**	**1,924,006**
Total liabilities	**5,443**	**75,848**	**108,136**	**78,358**	**471,800**
Total equity	**4,405,910**	**1,094,097**	**1,372,680**	**469,206**	**1,452,205**

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	4,532,477	1,074,454	1,556,515	580,336	1,817,690
Total liabilities	3,839	40,735	133,921	63,873	282,733
Total equity	4,528,637	1,033,789	1,422,595	516,464	1,534,918
Attributable to:					
Owner of the parent	4,483,351	1,013,320	1,394,428	506,238	1,504,527
Non-controlling interest	45,286	20,469	28,167	10,226	30,391

34. MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)

The following table summarizes the statement of profit and loss of these subsidiaries for the year ended 31 December 2018. 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	**5,750**	**155,388**	**81,532**	**45,220**	**14,702**
Profit / (loss) for the year	**(121,228)**	**60,506**	**(48,738)**	**(46,953)**	**(82,849)**
Total comprehensive (loss) / income for the year	**(122,727)**	**60,308**	**(49,915)**	**(47,258)**	**(82,713)**
Attributable to:					
Owner of the parent	**(122,693)**	**59,929**	**(49,414)**	**(46,520)**	**(81,104)**
Non-controlling interest	**(34)**	**379**	**(501)**	**(738)**	**(1,609)**

The following table summarizes the statement of profit and loss 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*
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)

35. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorized to issue by the Board of Directors on Rajab 20, 1440H Corresponding to March 27, 2019.