

Aldar Properties PJSC

BOARD OF DIRECTORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

REPORTS AND CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

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Aldar Properties PJSC

BOARD OF DIRECTORS' REPORT

31 DECEMBER 2017

Aldar Properties PJSC

BOARD OF DIRECTORS' REPORT

On behalf of the Board of Directors, I am delighted to present the consolidated audited financial statements of Aldar Properties PJSC (the "Company") and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2017.

Principal activities

The principal activities of the Group continue to be the property development, investment and management of its real estate assets including offices, malls, hotels, schools, marinas and golf courses.

Financial results

The financial results of the Group have been presented on page 8 of these consolidated financial statements.

Financial statements

The Directors reviewed and approved the consolidated financial statements of the Group for the year ended 31 December 2017.

Directors

The members of the Board of Directors as of 31 December 2017 are:

H.E. Mohamed Khalifa Al Mubarak	Chairman
H.E. Abubaker Seddiq Al Khoori	First Vice Chairman
H.E. Waleed Ahmed Al Mokarrab Al Muhairi	Second Vice Chairman
Mr. Ali Saeed Abdulla Sulayem Al Falasi	Director
Mr. Mansour Mohamed Al Mulla	Director
Mr. Ahmed Khalifa Mohamed Al Mehairi	Director
Mr. Mohammed Haji Al Khoori	Director
Mr. Martin Lee Edelman	Director
Eng. Hamad Salem Al Ameri	Director

Release

The Directors release from liability the external auditor and management in connection with their duties for the year ended 31 December 2017.

On behalf of the Board of Directors

Mohammed Al Mubarak
Chairman

14 February 2018

Aldar Properties PJSC

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF ALDAR PROPERTIES PJSC

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Aldar Properties PJSC (the "Company"), and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (the "IESBA Code")* together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF ALDAR PROPERTIES PJSC continued

Report on the Audit of the Consolidated Financial Statements continued

Key audit matters continued

(a) Recognition of revenue on property development and sales and valuation of unbilled receivables

Revenue recognition on property development and sales and valuation of unbilled receivables involves significant judgements and use of estimates. The Group assesses for each of its contracts with customers, whether to recognise revenue over time or at a point in time based on a consideration of whether the Group has created a real estate asset with no alternative use and whether the Group has an enforceable right to payment for performance completed at any time during the life of the contract (see Note 3.7 and 4.2 to the consolidated financial statements).

Where revenue is recognised over time, the Group estimates total development and infrastructure costs required to meet performance obligations under the contract and recognises proportionate revenue to the extent of satisfaction of performance obligations as at the end of the reporting period.

Revenue recognition on property development and sales was assessed as a key audit matter due to the significance of the assessment of satisfaction of performance obligations, estimation of total cost of project completion and judgements made in assessing the timing of revenue recognition. Furthermore, the valuation of unbilled revenues on completed as well as on-going development projects required management judgment due to the specific risks associated with each development project.

We reviewed a sample of contracts with customers for property development and sale and assessed the management identification of performance obligations and determination of whether the revenue shall be recognised over time or at a point in time. We assessed the satisfaction of performance obligations and where appropriate we corroborated it with external available evidence.

We examined approved project cost budgets for significant on-going real estate developments and reviewed the projects' completion percentages in light of costs incurred and also reviewed invoices, on a sample basis, to substantiate the costs incurred. For a sample of significant projects, we recalculated the amount of revenue to be recognised.

We inspected the contracts and tested the governance around approval of project budgets and held discussions with management where significant variances against the approved budgets were noted to understand the underlying reason.

We evaluated the adequacy of the valuation of unbilled revenues on completed as well as on-going development projects. In addition, we evaluated the adequacy of the Group's disclosures regarding unbilled revenues and the related risks such as credit risk as disclosed in note 3.6 of the consolidated financial statements.

(b) Valuation of investment properties

The valuation of investment properties is a key audit matter given the degree of complexity involved in valuation and the significance of the judgements and estimates made by management. The property valuations were carried out by external valuers (the "Valuers"). In determining a property's valuation the Valuers take into account property-specific information such as the current tenancy agreements and rental income and apply assumptions for yields and estimated market rent, which are influenced by prevailing market yields and comparable market transactions, to arrive at the valuation (see Note 4.2 and 7 to the consolidated financial statements).

We read the valuation reports for properties and assessed that the valuation approach for each was in accordance with the established standards for valuation of properties and suitable for use in determining the carrying value for the purpose of the consolidated financial statements.

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF ALDAR PROPERTIES PJSC continued

Report on the Audit of the Consolidated Financial Statements continued

Key audit matters continued

(b) Valuation of investment properties continued

We assessed the Valuers' independence, qualification and expertise and read their terms of engagement to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations upon their work.

We involved our internal valuation specialists in reviewing the valuation of a sample of properties. The review included discussions with management, consideration of overall reasonableness of the assumptions and assessment of movement in valuations against our expectations. Where the assumptions were outside expected ranges or otherwise unusual, we obtained further audit evidence to support the explanations provided by management.

We compared the investment yields used by the Valuers to an estimated range of expected yields, assessed via reference to published benchmarks and research reports. Moreover, we analyzed assumptions such as estimated rental values, service charges and occupancy levels against historical trends, published benchmarks or recent transactions. For break options, we inquired from management their assessment, based on correspondence with the tenants, whether these options would be exercised and corroborated management assessment with assumptions used by Valuers in valuation reports. Where assumptions were outside the expected range or otherwise unusual, and/or valuations showed unexpected movements, we undertook further investigations and, when necessary, held further discussions with the management.

(c) Impairment assessment of hotel properties classified under property, plant and equipment

Hotel properties classified under property, plant and equipment had a carrying amount of AED 2,065 million as at 31 December 2017. The Group undertakes a review of indicators of impairment and wherever indicators of impairment exist, an impairment review is carried out by determining the recoverable amount which takes into account the fair value of the property under consideration (see Note 4.2 and 5 to the consolidated financial statements).

The estimation of recoverable amounts of Hotel properties was assessed as a key audit matter due to the degree of complexity involved in valuation and the significance of the judgements and estimates made by the management.

We assessed the qualifications and expertise of independent third party Valuers and read their terms of engagement to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations upon their work.

We involved our internal valuation specialists in reviewing the valuation of Hotel properties. The review included discussions with management, consideration of overall reasonableness of the assumptions and assessment of movement in valuations against our expectations. Where the assumptions were outside the expected range or otherwise unusual, we obtained further audit evidence to support the explanations provided by management.

We compared the investment yields used by the Valuers to an estimated range of expected yields, assessed via reference to published benchmarks and research reports. Moreover, we analyzed assumptions such as average daily rate and occupancy levels against historical trends or published benchmarks. Where assumptions were outside the expected range or otherwise unusual, and/or valuations showed unexpected movements, we undertook further investigations and, when necessary, held further discussions with the management.

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF ALDAR PROPERTIES PJSC continued

Report on the Audit of the Consolidated Financial Statements continued

Other information included in the Group's 2017 Annual Report

Other information consists of the information included in the Group's 2017 Annual Report, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Group's 2017 Annual Report after the date of our auditors' report. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do 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 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. If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 International Financial Reporting Standards and in compliance with the applicable provisions of the Company's Memorandum and Articles of Association and of the UAE Federal Law No. (2) of 2015, 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.

Auditors' 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF ALDAR PROPERTIES PJSC continued

Report on the Audit of the Consolidated Financial Statements continued

Auditors' responsibilities for the audit of the consolidated financial statements continued

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than 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, 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF ALDAR PROPERTIES PJSC continued

Report on the Audit of the Consolidated Financial Statements continued

Auditors' responsibilities for the audit of the consolidated financial statements 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.

Report on Other Legal and Regulatory Requirements

Further, as required by the UAE Federal Law No. (2) of 2015, we report that:

- i) we have obtained all the information and explanations we considered necessary for the purposes of our audit;
- ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015 and the Memorandum and Articles of Association of the Company;
- iii) the Group has maintained proper books of account;
- iv) the consolidated financial information included in the report of the Board of Directors is consistent with the books of account and records of the Group;
- v) investments in shares and stocks are included in note 8 and 9 to the consolidated financial statements and include purchases and investments made by the Group during the year ended 31 December 2017;
- vi) note 31 reflects material related party transactions and the terms under which they were conducted;
- vii) based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Company has contravened, during the financial year ended 31 December 2017, any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Memorandum and Articles of Association which would materially affect its activities or its consolidated financial position as at 31 December 2017; and
- viii) note 36 reflects the social contributions recorded during the year.

Signed by:
Anthony O'Sullivan
Partner
Registration No: 687

Date
Abu Dhabi

Aldar Properties PJSC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	<i>Notes</i>	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment	5	2,930,941	2,986,073
Intangible assets	6	5,104	3,967
Investment properties	7	16,076,549	15,773,282
Investment in associates and joint ventures	8	957,631	964,408
Available-for-sale financial assets	9	119,389	126,448
Trade and other receivables	10	<u>427,211</u>	<u>726,974</u>
Total non-current assets		<u>20,516,825</u>	<u>20,581,152</u>
Current assets			
Land held for sale		2,305,747	2,228,191
Development work in progress	11	1,476,818	1,298,384
Inventories	12	286,601	220,645
Trade and other receivables	10	4,925,449	4,536,385
Cash and bank balances	13	<u>6,885,486</u>	<u>6,696,340</u>
Total current assets		<u>15,880,101</u>	<u>14,979,945</u>
TOTAL ASSETS		<u>36,396,926</u>	<u>35,561,097</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	14	7,862,630	7,862,630
Statutory reserve	15	3,931,315	3,931,315
Hedging reserve		(17,024)	(19,136)
Fair value reserve		44,084	38,171
Retained earnings		<u>11,200,549</u>	<u>10,069,933</u>
Equity attributable to the owners of the Company		23,021,554	21,882,913
Non-controlling interests		<u>213,611</u>	<u>203,181</u>
Total equity		<u>23,235,165</u>	<u>22,086,094</u>
Non-current liabilities			
Non-convertible sukuk	16	-	2,749,189
Bank borrowings	17	2,376,275	2,168,792
Retentions payable		311,389	165,234
Provision for employees' end of service benefit	18	141,763	128,137
Other financial liabilities	19	<u>16,263</u>	<u>15,081</u>
Total non-current liabilities		<u>2,845,690</u>	<u>5,226,433</u>
Current liabilities			
Non-convertible sukuk	16	2,762,570	9,983
Bank borrowings	17	817,173	636,268
Retentions payable		310,175	397,525
Advances from customers		469,854	424,642
Trade and other payables	20	<u>5,956,299</u>	<u>6,780,152</u>
Total current liabilities		<u>10,316,071</u>	<u>8,248,570</u>
Total liabilities		<u>13,161,761</u>	<u>13,475,003</u>
TOTAL EQUITY AND LIABILITIES		<u>36,396,926</u>	<u>35,561,097</u>

Mohammed Al Mubarak
Chairman

Talal Al Dhiyebi
Chief Executive Officer

Greg Fewer
Chief Financial Officer

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

Aldar Properties PJSC

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

	<i>Notes</i>	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
Revenue	21	6,180,676	6,237,496
Direct costs	22	<u>(3,525,171)</u>	<u>(3,598,243)</u>
GROSS PROFIT		2,655,505	2,639,253
Selling and marketing expenses	23	(74,978)	(61,418)
<i>General and administrative expenses</i>			
Staff costs	24	(227,767)	(233,329)
Depreciation and amortisation	5,6	(185,976)	(199,050)
Reversals / (provisions, impairments and write downs), net	25	8,821	(27,622)
Others	36	(104,543)	(109,856)
Share of profit from associates and joint ventures, net	8	41,544	66,636
Gain on disposal of investment properties		3,835	14,409
Fair value loss on investment properties, net	7	(613,107)	(169,680)
Finance income	26	124,642	119,972
Finance costs	27	(254,253)	(241,189)
Other income	28	<u>632,212</u>	<u>954,280</u>
PROFIT FOR THE YEAR		<u>2,005,935</u>	<u>2,752,406</u>
Attributable to:			
Owners of the Company		1,995,505	2,782,364
Non-controlling interests		<u>10,430</u>	<u>(29,958)</u>
		<u>2,005,935</u>	<u>2,752,406</u>
Basic and diluted earnings per share attributable to owners of the Company in AED	29	<u>0.254</u>	<u>0.354</u>

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

Aldar Properties PJSC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	<i>Notes</i>	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
Profit for the year		<u>2,005,935</u>	<u>2,752,406</u>
<i>Other comprehensive income to be reclassified to income statement in subsequent periods:</i>			
Gain on revaluation of available-for-sale financial assets	9	5,913	8,888
Changes in fair value of cash flow hedges	19	<u>2,112</u>	<u>6,772</u>
Other comprehensive income		<u>8,025</u>	<u>15,660</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>2,013,960</u>	<u>2,768,066</u>
Total comprehensive income attributable to:			
Owners of the Company		2,003,530	2,798,024
Non-controlling interests		<u>10,430</u>	<u>(29,958)</u>
		<u>2,013,960</u>	<u>2,768,066</u>

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

Aldar Properties PJSC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	<i>Share capital</i>	<i>Statutory reserve</i>	<i>Hedging reserve</i>	<i>Fair value reserve</i>	<i>Retained earnings</i>	<i>Equity attributable to owners of the Company</i>	<i>Non- controlling interests</i>	<i>Total equity</i>
<i>Note</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>
Balance at 1 January 2016	7,862,630	3,931,315	(25,908)	29,283	8,073,832	19,871,152	287,939	20,159,091
Profit for the year	-	-	-	-	2,782,364	2,782,364	(29,958)	2,752,406
Other comprehensive income	-	-	6,772	8,888	-	15,660	-	15,660
Dividends paid for the year 2015	-	-	-	-	(786,263)	(786,263)	(54,800)	(841,063)
Balance at 31 December 2016	<u>7,862,630</u>	<u>3,931,315</u>	<u>(19,136)</u>	<u>38,171</u>	<u>10,069,933</u>	<u>21,882,913</u>	<u>203,181</u>	<u>22,086,094</u>
Balance at 1 January 2017	7,862,630	3,931,315	(19,136)	38,171	10,069,933	21,882,913	203,181	22,086,094
Profit for the year	-	-	-	-	1,995,505	1,995,505	10,430	2,005,935
Other comprehensive income	-	-	2,112	5,913	-	8,025	-	8,025
Dividends paid for the year 2016	-	-	-	-	(864,889)	(864,889)	-	(864,889)
30	<u>7,862,630</u>	<u>3,931,315</u>	<u>(17,024)</u>	<u>44,084</u>	<u>11,200,549</u>	<u>23,021,554</u>	<u>213,611</u>	<u>23,235,165</u>
Balance at 31 December 2017	<u>7,862,630</u>	<u>3,931,315</u>	<u>(17,024)</u>	<u>44,084</u>	<u>11,200,549</u>	<u>23,021,554</u>	<u>213,611</u>	<u>23,235,165</u>

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

Aldar Properties PJSC

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	<i>2017</i> <i>AED '000</i>	<i>2016</i> <i>AED '000</i>
Cash flows from operating activities		
Profit for the year	2,005,935	2,752,406
Adjustments for:		
Depreciation and amortisation	196,539	211,221
Finance income	(124,642)	(119,972)
Dividend income	(5,155)	(1,200)
Finance costs	205,778	221,341
Amortisation of prepaid finance costs	18,017	19,848
Fair value loss on investment properties, net	613,107	169,680
Share of profit from associates and joint ventures	(41,544)	(66,636)
Release of provision for onerous contracts	13,762	(24,142)
Impairments / write-offs on projects	2,064	-
Provisions, impairments and write downs, net	(111,228)	(336,771)
Accruals/ reversals, net	(98,899)	(37,318)
Reversal/ provision for impairment on property, plant and equipment, net	(1,341)	33,583
Write-off of investment in associates and joint ventures	800	-
Loss on disposal of property, plant and equipment	14	480
Gain on disposal of investment properties	(3,835)	(14,409)
Provision for employees' end of service benefits, net	<u>26,420</u>	<u>20,511</u>
Operating cash flows before changes in working capital	2,695,792	2,828,622
Changes in working capital:		
Decrease in trade and other receivables	61,377	633,261
(Increase)/ decrease in development work in progress	(203,157)	247,920
Increase in inventories	(143,515)	(418,907)
Increase/ (decrease) in retentions payable	58,806	(72,381)
Increase/ (decrease) in advances and security deposits from customers	45,211	(402,429)
Decrease in trade and other payables	<u>(630,844)</u>	<u>(699,472)</u>
Cash generated from operating activities	<u>1,883,670</u>	<u>2,116,614</u>
Employees' end of service benefits paid	<u>(12,794)</u>	<u>(8,249)</u>
Net cash generated from operating activities	<u>1,870,876</u>	<u>2,108,365</u>

Aldar Properties PJSC

CONSOLIDATED STATEMENT OF CASH FLOWS continued

For the year ended 31 December 2017

	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
Cash flows from investing activities		
Purchase of property, plant and equipment	(154,940)	(260,658)
Purchase of intangible assets	(4,976)	(2,768)
Additions to investment properties	(944,211)	(96,182)
Capital call contributions made for available for sale financial assets	-	(1,067)
Capital repayments received for available for sale financial assets	12,972	6,481
Proceeds from disposal of investment properties	15,094	49,003
Finance income received	74,620	78,248
Dividends received	66,544	48,238
Movement in term deposits with original maturities above three months	(71,417)	439,784
Movement in restricted bank balances	<u>(712,354)</u>	<u>(969,003)</u>
Net cash used in investing activities	<u>(1,718,668)</u>	<u>(707,924)</u>
Cash flows from financing activities		
Repayment of operating lease liability	(25,468)	(20,704)
Bank financing raised	1,000,000	5,000
Repayment of borrowings	(627,592)	(394,005)
Finance costs paid	(204,631)	(211,135)
Dividends paid	(866,143)	(843,048)
Directors' remuneration paid	<u>(23,000)</u>	<u>(29,183)</u>
Net cash used in financing activities	<u>(746,834)</u>	<u>(1,493,075)</u>
Net decrease in cash and cash equivalents	(594,626)	(92,634)
Cash and cash equivalents at the beginning of the year	<u>1,511,533</u>	<u>1,604,167</u>
Cash and cash equivalents at the end of the year (Note 13)	<u>916,907</u>	<u>1,511,533</u>

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

1 GENERAL INFORMATION

The establishment of Aldar Properties PJSC (the “Company”) was approved by Decision No. (16) of 2004 of the Abu Dhabi Department of Planning and Economy dated 12 October 2004. The Company’s incorporation was declared by Ministerial Resolution No. (59) of 2005 issued by the UAE Minister of Economy dated 23 February 2005. The Company is domiciled in the United Arab Emirates and its registered office address is PO Box 51133, Abu Dhabi. The Company’s ordinary shares are listed on Abu Dhabi Securities Exchange.

The Company and its subsidiaries (together referred to as the “Group”) are engaged in various businesses primarily the development, sales, investment, construction, management and associated services for real estate, operation of hotels, schools, marinas and golf courses.

2 NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

2.1 Standards issued and adopted

The Group applied certain standards, interpretations and amendments for the first time, which are effective for annual periods beginning on or after 1 January 2017.

The application of these new standards, interpretation and amendment did not have a material impact on the annual consolidated financial statements of the Group. The nature and the impact of each new standard, interpretation and amendment is described below:

- **Amendments to IAS 7 Statements of Cash Flows; Disclosure Initiative** require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).
- **Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses** clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Annual Improvements 2014-2016 cycle, including:

- *Amendments to IFRS 12 Disclosures of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12:* The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity’s interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

2 NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
continued

2.2 Standards issued but not yet effective

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

	<i>Effective for annual periods beginning on or after</i>
<i>Standards, interpretation and amendments</i>	
IFRS 2 Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2	1 January 2018
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018
IFRS 9 Financial Instruments	1 January 2018
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Postponed
Amendments to IAS 40: Transfers of Investment Property	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
Prepayment Features with Negative Compensation - Amendments to IFRS 9	1 January 2019
Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28	1 January 2019
IFRIC 23 Uncertainty over income tax treatments	1 January 2019
IFRS 17 Insurance Contracts	1 January 2021
<i>Annual Improvements 2014-2016 Cycle</i>	
• IFRS 1 First-time adoption of International Financial Reporting Standards – Deletion of short-term exemptions for first time adopters	1 January 2018
• IAS 28 Investments in Associates and Joint Ventures – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice	1 January 2018
• IFRS 3 Business Combinations - Previously held interests in a joint operation	1 January 2019
• IFRS 11 Joint Arrangements - Previously held interests in a joint operation	1 January 2019
• IAS 12 Income Taxes - Income tax consequences of payments on financial instruments classified as equity	1 January 2019
• IAS 23 Borrowing Costs - Borrowing costs eligible for capitalisation	1 January 2019

Management anticipates that the adoption of standards issued but not yet effective will have no material impact on the consolidated financial statements of the Group.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and also comply with the applicable requirements of the laws in the UAE. The accounting policies have been consistently applied.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for the revaluation of investment properties, derivatives and available for sale financial assets. The principal accounting policies are set out below.

These consolidated financial statements have been presented in UAE Dirhams (AED) which is also the functional currency of the Group.

3.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses 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 listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued**3.3 Basis of consolidation** continued

<i>Name of subsidiary</i>	<i>Ownership interest</i>	<i>Country of incorporation</i>	<i>Principal activity</i>
Al Raha Gardens Property LLC	100%	UAE	Development, sale and management of properties
Al Jimi Mall LLC	100%	UAE	Development and management of investment property
Aldar Real Estate Services LLC	100%	UAE	Property development
Al Raha Infrastructure Company LLC	100%	UAE	Development, sale and management of properties
Aldar Academies LLC	100%	UAE	Investment in, and management of entities providing educational services
Aldar Facilities Management LLC (i)	100%	UAE	Investment in, and management of, entities providing facilities management services
Aldar Commercial Property Developments LLC	100%	UAE	Ownership, management and development of buildings
Aldar Hotels and Hospitality LLC	100%	UAE	Investment in, and management of, entities providing hotels and hospitality services
Aldar Marinas LLC	100%	UAE	Managing and operating marinas, sports clubs and marine machinery
Abu Dhabi World Trade Centre LLC	100%	UAE	Development and management of, and investment in, properties and related activities
Nareel Island Development Company (i)	100%	UAE	Development and management of, and investment in, properties and related activities
Yas Hotel LLC	100%	UAE	Ownership, development and management of hotels
Yas Links LLC	100%	UAE	Ownership and management of golf courses and golf clubs
Al Muna Primary School LLC	100%	UAE	Providing educational services
Sorouh Abu Dhabi Real Estate LLC	100%	UAE	Act as Mudarib in accordance with the Sukuk Issue structure
Lulu Island for Project Development LLC	100%	UAE	Development of properties and real estate
Tilal Liwa Real Estate Investment LLC	100%	UAE	Property, rental and management
Al Seih Real Estate Management LLC	91.4%	UAE	Management and leasing of real estate; real estate projects investment
Seih Sdeirah Real Estate LLC	91.4%	UAE	Property rental and management; real estate projects investment
Pivot Engineering & General Contracting Co. (WLL)	65.2%	UAE	Engineering and general construction works
Khidmah LLC	60%	UAE	Management and leasing of real estate

(i) During the year, the company discontinued certain non-active subsidiaries.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.4 Business combinations

Acquisitions of subsidiaries are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in income statement. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to income statement where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

3.5 Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, an investment in an associate or a joint venture is initially recognised and carried in the consolidated statement of financial position at cost and as adjusted thereafter to recognise for post-acquisition changes in the Group's share of the profit or loss and other comprehensive income of the associate and joint venture.

Losses of an associate or joint venture in excess of the Group's interest in that associate or joint venture (which includes any long term interests that, in substance, form part of the Group's net investment in associate or joint venture) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Where an entity in the Group transacts with an associate or joint venture of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate or joint venture.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.6 Investment in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When a group entity undertakes its activities under joint operations, the Group as a joint operator recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with IFRSs applicable to the particular assets, liabilities, revenues and expenses.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Group is considered conducting the transaction with other parties to the joint operation and profits and losses resulting from the transactions are recognised in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a purchase of assets), the Group does not recognise its share of the gains and losses until it resells those assets to a third party.

3.7 Revenue recognition

The Group had elected to early adopt IFRS 15 with effect from 1 January 2015.

Revenue from contracts with customers for sale of properties, construction contracts and provision of services

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

- Step 1. Identify contract(s) 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 for every contract that must be met.
- Step 2. Identify 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 allocates the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.
- Step 5. Recognise revenue when (or as) the Group satisfies a performance obligation.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.7 Revenue recognition continued

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

- a) The Group's performance does not create an asset with an alternate use to the Group and the Group has an enforceable right to payment for performance completed to date.
- b) The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.
- c) The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

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

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

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes and duty. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent.

Revenue is recognised to the extent it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably.

Rental income

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

Service charges and expenses recoverable from tenant

Income arising from cost recharged to tenants is recognised in the period in which the cost can be contractually recovered. Service charges and other such receipts are included gross of the related costs in revenue as the Group acts as principal in this respect.

Income from hotels

Income from hotels comprises revenue from rooms, food and beverages and other associated services provided, and is recognised at the point when the goods are sold or services are rendered.

Income from leisure businesses

Income from leisure businesses comprises revenue from goods sold and services provided at marinas and golf course, and is recognised at the point when the goods are sold or services are rendered.

Income from schools

Registration fee is recognised as income when it is received. Tuition fee income is recognised over the period of tuition. Tuition fees received in advance are recorded as deferred income.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.7 Revenue recognition continued

Dividend income

Dividend income from investments is recognised when the Group's right to receive payment has been established.

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and effective interest rate applicable.

3.8 Leases

The Group had elected to early adopt IFRS 16 with effect from 1 January 2016.

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

For a contract that is, or contains, a lease, the Group accounts for each lease component within the contract as a lease separately from non-lease components of the contract.

The Group determines the lease term as the non-cancellable period of a lease, together with both:

- a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

In assessing whether a lessee is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease, the Group considers all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option to extend the lease, or not to exercise the option to terminate the lease. The Group revises the lease term if there is a change in the non-cancellable period of a lease.

The Group as a lessee

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The relative stand-alone price of lease and non-lease components is determined on the basis of the price the lessor, or a similar supplier, would charge an entity for that component, or a similar component, separately. If an observable stand-alone price is not readily available, the Group estimates the stand-alone price, maximising the use of observable information.

The non-lease components are accounted for in accordance with the Group's policies.

For determination of the lease term, the Group reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that:

- a) is within the control of the Group; and
- b) affects whether the Group is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term.

At the commencement date, the Group recognises a right-of-use asset and a lease liability under the lease contract.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.8 Leases continued

Lease liability

Lease liability is initially recognised at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses its incremental borrowing rate.

After initial recognition, the lease liability is measured by (a) increasing the carrying amount to reflect interest on the lease liability; (b) reducing the carrying amount to reflect the lease payments made; and (c) remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

Where, (a) there is a change in the lease term as a result of reassessment of certainty to exercise an exercise option, or not to exercise a termination option as discussed above; or (b) there is a change in the assessment of an option to purchase the underlying asset, assessed considering the events and circumstances in the context of a purchase option, the Group remeasures the lease liabilities to reflect changes to lease payments by discounting the revised lease payments using a revised discount rate. The Group determines the revised discount rate as the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, or the its incremental borrowing rate at the date of reassessment, if the interest rate implicit in the lease cannot be readily determined.

Where, (a) there is a change in the amounts expected to be payable under a residual value guarantee; or (b) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, including a change to reflect changes in market rental rates following a market rent review, the Group remeasures the lease liabilities by discounting the revised lease payments using an unchanged discount rate, unless the change in lease payments results from a change in floating interest rates. In such case, the Group use a revised discount rate that reflects changes in the interest rate.

The Group recognises the amount of the re-measurement of lease liability as an adjustment to the right-of-use asset. Where the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Group recognises any remaining amount of the re-measurement in profit or loss.

The Group accounts for a lease modification as a separate lease if both:

- a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

Lease modifications that are not accounted for as a separate, lease the Group, at the effective date of the lease modification: (a) allocates the consideration in the modified contract; (b) determines the lease term of the modified lease; and (c) remeasures the lease liability by discounting the revised lease payments using a revised discount rate.

The revised discount rate is determined as the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, or the lessee's incremental borrowing rate at the effective date of the modification, if the interest rate implicit in the lease cannot be readily determined.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.8 Leases continued

Right-of-use assets

The right-of-use asset is initially recognised at cost comprising of

- a) amount of the initial measurement of the lease liability;
- b) any lease payments made at or before the commencement date, less any lease incentives received;
- c) any initial direct costs incurred by the Group; and
- d) an estimate of costs to be incurred by the Group in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease. These costs are recognised as part of the cost of right-of-use asset when the Group incurs an obligation for these costs. The obligation for these costs are incurred either at the commencement date or as a consequence of having used the underlying asset during a particular period.

After initial recognition, the Group applies fair value model to right-of-use assets that meet the definition of investment property. For assets that meet the definition of property, plant and equipment, right of use asset is amortised over the term of the lease.

3.9 Foreign currencies

Transactions in currencies other than AED (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3.10 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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

All other borrowing costs are recognised in income statement in the period during which they are incurred.

3.11 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to the income statement in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.11 Property, plant and equipment continued

Depreciation is calculated using the straight-line method to allocate the assets' cost to their residual values over their estimated useful lives as follows:

	<i>Years</i>
Buildings	20 – 30
Labour camps	5
Furniture and fixtures	5
Office equipment	3 – 5
Computers	3
Motor vehicles	4
Leasehold improvements	3 – 4

Freehold land is not depreciated.

Assets held under finance leases are depreciated over the shorter of their expected useful lives or the term of the relevant lease.

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

3.12 Capital work in progress

Properties or assets in the course of construction for production, supply or administrative purposes, are carried at cost, less any recognised impairment loss. Cost includes all direct costs attributable to the design and construction of the property including related staff costs, and for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. When the assets are ready for intended use, the capital work in progress is transferred to the appropriate property, plant and equipment category and is accounted in accordance with the Group's policies.

3.13 Investment properties

Investment properties comprise completed properties and properties under development. Completed properties are properties held to earn rentals and / or for capital appreciation and properties under development are properties being constructed or developed for future use as investment property.

Investment properties are measured initially at cost including transaction costs and for properties under development all direct costs attributable to the design and construction including related staff costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains or losses arising from changes in the fair value of investment properties are included in the income statement in the period in which they arise.

Upon completion of construction or development, a property is transferred from properties under development to completed properties.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.14 Development work in progress

Development work in progress consists of property being developed principally for sale and is stated at the lower of cost or net realisable value. Cost comprises all direct costs attributable to the design and construction of the property including direct staff costs. Net realisable value is the estimated selling price in the ordinary course of the business less estimated costs to complete and applicable variable selling expenses.

3.15 Inventories

Inventories comprise completed properties held for sale in the ordinary course of business and other operating inventories. Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method and comprises construction / acquisition costs and other charges incurred in bringing inventory to its present location and condition. Net realisable value represents the estimated selling price less all estimated selling and marketing costs to be incurred.

3.16 Land held for sale

Land held for sale is stated at the lower of cost and net realisable value. Costs include the cost of land acquired and all direct costs attributable to the infrastructure works of the land. Net realisable value represents the estimated selling price of the land less all estimated costs necessary to make the sale.

3.17 Intangible assets

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful lives are reviewed at the end of each annual reporting period, with effect of any changes in estimate being accounted for on a prospective basis.

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight-line basis over their estimated useful lives which is normally a period of three to five years.

Licenses

Acquired licenses are shown at historical cost. Licenses have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licenses over their estimated useful lives.

3.18 Impairment of tangible and intangible assets excluding goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.18 Impairment of tangible and intangible assets excluding goodwill continued

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.19 Provisions

Provisions are recognised when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation at the end of the reporting period, using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of receivable can be measured reliably.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

3.20 Employee benefits

An accrual is made for the estimated liability for employees' entitlement to annual leave and leave passage as a result of services rendered by eligible employees up to the end of the year.

Provision is also made for the full amount of end of service benefit due to non-UAE national employees in accordance with the UAE Labour Law, for their period of service up to the end of the year. The accrual relating to annual leave and leave passage is disclosed as a current liability, while the provision relating to end of service benefit is disclosed as a non-current liability.

Pension contributions are made in respect of UAE national employees to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No. (2), 2000 for Pension and Social Security. Such contributions are charged to the income statement during the employees' period of service.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.21 Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in income statement on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-monetary assets are recognised as deferred government grant in the statement of financial position and transferred to income statement on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses already incurred or for the purpose of giving immediate financial support to the group with no future related costs are recognised in income statement in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Land granted by the Government of Abu Dhabi is recognised at nominal value where there is reasonable assurance that the land will be received and the Group will comply with any attached conditions, where applicable.

3.22 Financial assets

Financial assets are classified into the following specified categories: 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Loans and receivable include cash and bank balances, trade and other receivables, amounts due from related parties and loans and advances to third parties.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held with banks (excluding deposits held under lien) with original maturities of three months or less.

Available for sale financial assets

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

Available for sale investments are measured at subsequent reporting dates at fair value unless the latter cannot be reliably measured. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investment revaluation reserve in equity, with the exception of impairment losses, interest calculated using effective interest method and foreign exchange gains and losses on monetary assets, which are recognised in income statement.

Where the available for sale investment is disposed of or is determined to be impaired, at which time the cumulative gains or losses previously accumulated in the investment revaluation reserve is reclassified to the income statement.

Dividends on available for sale equity instruments are recognised in income statement when the Group's right to receive the dividends is established.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.22 Financial assets continued

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of past event, the estimated future cash flows of the investment have been affected.

For unquoted shares classified as AFS at cost, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the counterparty will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in income statement.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through income statement to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised through the income statement are not reversed through income statement. Any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.23 Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis, except for short-term payables when recognition of interest would be immaterial.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

3.24 Derivative financial instruments

The Group enters into derivative financial instruments to manage its exposure to interest rate risk, including interest rate swaps.

Derivative financial instruments are initially measured at fair value at contract date, and are subsequently re-measured at fair value at the end of each reporting period. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Fair values of the derivatives are carried out by independent valuers by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in income statement as they arise. Derivative financial instruments that do not qualify for hedge accounting are classified as held for trading derivatives.

For the purpose of hedge accounting, the Group designates certain derivatives into two types of hedge categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction that will affect future reported net income.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.24 Derivative financial instruments continued

Hedge accounting

In order to qualify for hedge accounting, it is required that the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item and the effectiveness can be reliably measured. At inception of the hedge, the Group documents its risk management objective and strategy for undertaking various hedge transactions, including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Group will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

Note 33.5(b) sets out details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve in equity are also detailed in the consolidated statement of changes in equity.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in income statement immediately, together with any changes in the fair value of the hedged item that are attributable to the hedged risk.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the profit or loss from that date.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in income statement.

Amounts previously recognised in other comprehensive income and accumulated in hedging reserve in equity are recycled in income statement in the periods when the hedged item is recognised in income statement, in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in income statement.

4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

While applying the accounting policies as stated in Note 3, management of the Group has made certain judgments, estimates and assumptions that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period of the revision in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 Critical judgments in applying accounting policies

Significant judgments made by management that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

Discount rate used for initial measurement of lease liability

The Group, as a lessee, measures the lease liability at the present value of the unpaid lease payments at the commencement date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses its incremental borrowing rate.

Incremental borrowing rate is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use assets in similar economic environment.

The Group determines its incremental borrowing rate with reference to its existing and historical cost of borrowing adjusted for the term and security against such borrowing.

Classification of properties

In the process of classifying properties, management has made various judgments. Judgment is needed to determine whether a property qualifies as an investment property, property, plant and equipment and / or property held for sale. The Group develops criteria so that it can exercise that judgment consistently in accordance with the definitions of investment property, property, plant and equipment and property held for sale. In making its judgment, management considered the detailed criteria and related guidance for the classification of properties as set out in IAS 2, IAS 16 and IAS 40, and in particular, the intended usage of property as determined by the management.

Judgments in relation to contracts with customers

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 for recognising revenue. The Group has assessed that based on the contracts entered into with customers and the provisions of relevant laws and regulations, the Group recognises revenue over time in the following circumstances:

- a) where contracts are entered into for development (sale of properties to customers), the Group does not create an asset with an alternative use to the Group and has an enforceable right to payment for performance completed to date;
- b) where contracts are entered into for construction (to construct an asset for the customer), the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and
- c) where contracts are entered into to provide services (property management and facility management), the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY continued

4.1 Critical judgments in applying accounting policies continued

Judgments in relation to contracts with customers continued

Satisfaction of performance obligations continued

Where the above criteria are not met, revenue is recognised at a point in time. Where revenue is recognised at a point of time, the Group assesses each contract with customers to determine when the performance obligation of the Group under the contract is satisfied.

Determination of transaction prices

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

In determining the impact of variable consideration, the Group uses the “most-likely amount” method in IFRS 15 whereby the transaction price is determined by reference to the single most likely amount in a range of possible consideration amounts.

Transfer of control in contracts with customers

In cases where the Group determines that performance obligations are satisfied at a point in time, revenue is recognised when control over the assets is transferred to the customer or benefits of the services being provided is received and consumed by the customer. In the case of contracts to sell real estate assets this is generally when the consideration for the unit has been substantially received and there are no impediments in the handing over of the unit to the customer.

4.2 Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

Allocation of transaction price to performance obligation in contracts with customers

The Group has elected to apply the input method in allocating the transaction price to performance obligations where revenue is recognised over time. The Group considers that the use of the input method, which requires revenue recognition on the basis of the Group’s efforts to the satisfaction of performance obligation, provides the best reference of revenue actually earned. In applying the input method, the Group estimates the efforts or inputs to the satisfaction of a performance obligation. In addition to the cost of meeting contractual obligation to the customers, these estimates mainly include:

- a) For development contracts, the cost of development and related infrastructure;
- b) For construction contracts, the certified works as evaluated by project consultant; and
- c) For services contracts, the time elapsed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY continued

4.2 Key sources of estimation uncertainty continued

Fair value of investment properties and investment properties under development

The fair value of investment properties is determined by independent real estate valuation experts using recognised valuation methods. These methods comprise the Residual Value Method, and the Income Capitalisation Method.

The Residual Value Method requires the use of estimates such as future cash flows from assets (comprising of selling and leasing rates, future revenue streams, construction costs and associated professional fees, and financing cost, etc.), targeted internal rate of return and developer's risk and targeted profit. These estimates are based on local market conditions existing at the end of the reporting period.

Under the Income Capitalisation Approach, the income receivable under existing lease agreements and projected future rental streams are capitalised at appropriate rates to reflect the investment market conditions at the valuation dates.

Such estimations are based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

The continuing volatility in the global financial system and in the real estate industry has contributed to the significant reduction in transaction volumes in the UAE. Therefore, in arriving at their estimates of market values as at 31 December 2017, the valuers have used their market knowledge and professional judgement and have not only relied solely on historic transactional comparables. In these circumstances, there is greater degree of uncertainty than which exists in a more active market in estimating market values of investment property.

The key assumptions used are as follows:

	<i>Range %</i>
Targeted internal rate of return	9 - 15
Rental yield	7 - 12

Estimation of net realisable value for inventory and development work in progress

Properties held for sale and properties classified under development work in progress are stated at the lower of cost or net realisable value (NRV). NRV is assessed with reference to sales prices, costs of completion and advances received and market conditions existing at the end of the reporting period. For certain properties, NRV is determined by the Group having taken suitable external advice and in the light of recent market transactions, where available.

Impairment of property, plant and equipment and capital work in progress

Properties classified under property, plant and equipment and capital work in progress are assessed for impairment when there is an indication that those assets have suffered an impairment loss. An impairment review is carried out by determining the recoverable amount which takes into account the fair value of the property under consideration. The fair value of hotel properties classified under property, plant and equipment is determined by an independent real estate valuation expert using Discounted Cash Flow method.

Cash flows are determined with reference to recent market conditions, prices existing at the end of the reporting period, contractual agreements and estimations over the useful lives of the assets and discounted using a range of discounting rates that reflects current market assessments of the time value of money and the risks specific to the asset. The net present values are compared to the carrying amounts to assess any probable impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY continued

4.2 Key sources of estimation uncertainty continued

Useful lives of property, plant and equipment and intangible assets

Management reviews the residual values and estimated useful lives of property, plant and equipment and intangible assets at the end of each annual reporting period in accordance with IAS 16 and IAS 38. Management determined that current year expectations do not differ from previous estimates based on its review.

Valuation of unquoted Available-for-sale equity investments

Valuation of unquoted available for sale equity investments is normally based on recent market transactions on an arm's length basis, fair value of another instrument that is substantially the same, expected cash flows discounted at current rates for similar instruments or other valuation models.

Impairment of investments in / receivable from joint ventures and associates

Management regularly reviews its investments in joint ventures and associates for indicators of impairment. This determination of whether investments in joint ventures and associates are impaired, entails Management's evaluation of the specific investee's profitability, liquidity, solvency and ability to generate operating cash flows from the date of acquisition and until the foreseeable future. The difference between the estimated recoverable amount and the carrying value of investment and / or receivable is recognised as an expense in income statement. Management is satisfied that no additional impairment is required on its investments in associates and joint ventures (Note 8) and its receivables from associates and joint ventures (Note 10.5) in excess of amount already provided.

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. This determination of whether the receivables are impaired, entails Management's evaluation of the specific credit and liquidity position of the customers and related parties and their historical recovery rates, including discussion with the legal department and review of the current economic environment. Management is satisfied that no additional impairment is required on its trade and other receivables in excess of amount already provided (Note 10.1).

Aldar Properties PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

5 PROPERTY, PLANT AND EQUIPMENT

	<i>Land and buildings AED '000</i>	<i>Labour camps AED '000</i>	<i>Furniture and fixtures AED '000</i>	<i>Office equipment AED '000</i>	<i>Computers AED '000</i>	<i>Motor vehicles AED '000</i>	<i>Leasehold improvements AED '000</i>	<i>Capital work in progress AED '000</i>	<i>Total AED '000</i>
Cost									
1 January 2016	5,973,482	1,654,047	617,351	73,998	100,467	5,856	13,659	22,231	8,461,091
Additions (i)	167,608	-	65,440	9,500	29,019	126	2,614	(13,649)	260,658
Transfers	6,554	-	-	(6,554)	-	-	-	-	-
Transfers from development work in progress (Note 11)	-	-	11,301	-	-	-	-	-	11,301
Transfers from/ (to) investment properties (Note 7)	(2,922)	-	-	-	-	-	-	23,286	20,364
Disposals	-	-	(11,648)	-	-	-	-	-	(11,648)
31 December 2016	<u>6,144,722</u>	<u>1,654,047</u>	<u>682,444</u>	<u>76,944</u>	<u>129,486</u>	<u>5,982</u>	<u>16,273</u>	<u>31,868</u>	<u>8,741,766</u>
1 January 2017	6,144,722	1,654,047	682,444	76,944	129,486	5,982	16,273	31,868	8,741,766
Additions (i)	82,189	-	18,709	9,906	9,667	354	-	34,115	154,940
Transfers	-	-	-	-	69	-	(69)	-	-
Transfers from development work in progress (Note 11)	-	-	-	-	-	-	-	8,150	8,150
Transfers to investment properties (Note 7)	-	-	-	-	-	-	-	(26,849)	(26,849)
Disposals	-	-	(2,190)	-	-	(643)	-	-	(2,833)
31 December 2017	<u>6,226,911</u>	<u>1,654,047</u>	<u>698,963</u>	<u>86,850</u>	<u>139,222</u>	<u>5,693</u>	<u>16,204</u>	<u>47,284</u>	<u>8,875,174</u>
Accumulated depreciation and impairment									
1 January 2016	3,201,754	1,638,038	525,899	56,150	87,311	4,486	11,850	-	5,525,488
Charge for the year	133,445	15,099	40,739	7,010	10,304	852	341	-	207,790
Impairment (Note 25)	33,583	-	-	-	-	-	-	-	33,583
Disposals	-	-	(11,168)	-	-	-	-	-	(11,168)
31 December 2016	<u>3,368,782</u>	<u>1,653,137</u>	<u>555,470</u>	<u>63,160</u>	<u>97,615</u>	<u>5,338</u>	<u>12,191</u>	<u>-</u>	<u>5,755,693</u>
1 January 2017	3,368,782	1,653,137	555,470	63,160	97,615	5,338	12,191	-	5,755,693
Charge for the year	127,603	853	38,407	12,535	11,004	786	1,512	-	192,700
Transfers	-	-	-	-	69	-	(69)	-	-
Impairment/ (reversal) (Note 25)	32,716	(34,057)	-	-	-	-	-	-	(1,341)
Disposals	-	-	(2,190)	-	-	(629)	-	-	(2,819)
31 December 2017	<u>3,529,101</u>	<u>1,619,933</u>	<u>591,687</u>	<u>75,695</u>	<u>108,688</u>	<u>5,495</u>	<u>13,634</u>	<u>-</u>	<u>5,944,233</u>
Carrying amount									
31 December 2017	<u>2,697,810</u>	<u>34,114</u>	<u>107,276</u>	<u>11,155</u>	<u>30,534</u>	<u>198</u>	<u>2,570</u>	<u>47,284</u>	<u>2,930,941</u>
31 December 2016	<u>2,775,940</u>	<u>910</u>	<u>126,974</u>	<u>13,784</u>	<u>31,871</u>	<u>644</u>	<u>4,082</u>	<u>31,868</u>	<u>2,986,073</u>

All of the Group's property, plant and equipment are located in the United Arab Emirates.

(i) Additions during the year ended 2016 include finance costs capitalised amounting to AED 2.362 million (Note 27) related to development of a school. Additions in 2017 for land and buildings include right-of-use assets with respect to a land lease of a school.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

5 PROPERTY, PLANT AND EQUIPMENT continued

The depreciation charge for the year has been allocated as follows:

	2017 AED'000	2016 AED'000
Direct cost	10,563	12,171
General and administrative expenses	<u>182,137</u>	<u>195,619</u>
	<u>192,700</u>	<u>207,790</u>

During the year, the Group carried out a review of recoverable value of its property, plant and equipment. The review led to a net reversal of impairment of AED 1.3 million (2016: impairment of AED 33.6 million) (Note 25), which has been recorded in the consolidated income statement. The recoverable value of relevant assets has been determined by reference to the discounted cash flow method using a yield of 7.5% to 9.0% (2016: 7.75% to 10%) and a discount rate of 10.25% to 13.0% (2016: 10.75% to 13.0%).

The Group conducted a sensitivity analysis for all its hotel properties classified under property, plant and equipment. The sensitivity has been conducted on the Revenue Per Available Room (RevPAR), and discount rate and exit yield. Based on this sensitivity analysis:

- a decrease in the Discount Rate & Exit Yield by 50bps would result in AED 148 million or 7.2% increase in the recoverable value, whilst an increase in the Discount Rate & Exit Yield by 50bps would result in AED 130 million or 6.3% decrease in the recoverable value.
- an increase in the RevPAR by 10% would result in a AED 402 million or 19.5% increase in the recoverable value, whilst a decrease in the RevPAR by 10% would result in AED 401 million or 19.4% decrease in the recoverable value.

6 INTANGIBLE ASSETS

	<i>Licenses</i> <i>AED'000</i>	<i>Computer software</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
Cost			
1 January 2016	-	75,205	75,205
Additions	<u>-</u>	<u>2,768</u>	<u>2,768</u>
31 December 2016	<u>-</u>	<u>77,973</u>	<u>77,973</u>
1 January 2017	-	77,973	77,973
Additions	<u>2,295</u>	<u>2,681</u>	<u>4,976</u>
31 December 2017	<u>2,295</u>	<u>80,654</u>	<u>82,949</u>
Accumulated amortisation			
1 January 2016	-	70,575	70,575
Charge for the year	<u>-</u>	<u>3,431</u>	<u>3,431</u>
31 December 2016	<u>-</u>	<u>74,006</u>	<u>74,006</u>
1 January 2017	-	74,006	74,006
Charge for the year	<u>333</u>	<u>3,506</u>	<u>3,839</u>
31 December 2017	<u>333</u>	<u>77,512</u>	<u>77,845</u>
Carrying amount			
31 December 2017	<u>1,962</u>	<u>3,142</u>	<u>5,104</u>
31 December 2016	<u>-</u>	<u>3,967</u>	<u>3,967</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

7 INVESTMENT PROPERTIES

Investment properties comprise completed properties (buildings and retail centers) and investment properties under development (IPUD). The movement during the year is as follows:

	2017			2016		
	Completed properties AED'000	Properties under development AED'000	Total AED'000	Completed properties AED'000	Properties under development AED'000	Total AED'000
Balance at the beginning of the year	14,929,374	843,908	15,773,282	15,114,269	787,469	15,901,738
Addition during the year, net (i)	623,006	271,205	894,211	908	95,274	96,182
Finance cost capitalised (Note 27)	-	213	213	-	-	-
Fair value loss, net	(613,107)	-	(613,107)	(169,680)	-	(169,680)
Disposals	(11,259)	-	(11,259)	(34,594)	-	(34,594)
Transfers from / (to):						
Completed properties/ IPUD	165,234	(165,234)	-	-	-	-
Property, plant and equipment (Note 5)	26,849	-	26,849	18,471	(38,835)	(20,364)
Development work in progress (Note 11)	6,360	-	6,360	-	-	-
Balance at the end of the year	15,126,457	950,092	16,076,549	14,929,374	843,908	15,773,282

(i) Additions during the year include investment property acquired amounting to AED 659.3 million.

All investment properties are located in the United Arab Emirates.

The fair values of the investment properties including properties under development are arrived at on the basis of a valuation carried out by independent valuers not connected with the Group. The valuers are members of professional valuers' associations and have appropriate qualifications and experience in the valuation of properties at the relevant locations. The valuations were mainly determined by using the Income Capitalisation Method. The valuation has been conducted as at 31 October 2017; management believes that there have been no significant changes to the fair values of investment properties' fair values from 31 October 2017 to 31 December 2017. Refer to Note 4.2 for the key assumptions used.

The Group conducted a sensitivity analysis for nine largest assets in its investment property portfolio with an aggregate value of AED 11.6 billion. The sensitivity has been conducted on the Capitalisation Rates and Rental Values. Based on this sensitivity analysis:

- a decrease in the Capitalisation/Discount Rate by 50bps would result in a AED 696 million or 6.0 % increase in the valuation, whilst an increase in the Capitalisation/ Discount Rate by 50bps would result in AED 651 million 5.6% decrease in the valuation.
- an increase in the rental rates by 10% would result in an AED 902 million or 7.8% increase in the valuation, whilst a decrease in the rental rates by 10% would result in AED 920 million or 7.9% decrease in the valuation.

There are interrelationships between the unobservable inputs which are generally determined by market conditions. The valuation may be affected by the interrelationship between the two noted unobservable inputs; for example, an increase in rent may be offset by an increase in the capitalisation rate, thus resulting in no net impact on the valuation. Similarly, an increase in rent in conjunction with a decrease in the capitalisation rate would amplify an increase in the value.

The investment properties are categorised under Level 3 in the fair value hierarchy.

Aldar Properties PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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8 INVESTMENT IN ASSOCIATES AND JOINT VENTURES

	Ownership interest	Voting power	Place of registration	Share in underlying net assets at 1 January 2017 AED '000	Share in current year's profit / (loss) AED '000	Share in hedging reserve AED '000	Dividends received AED '000	Allocated to current account of the associates / ventures AED '000	Disposals/ write-offs AED '000	Share in underlying net assets at 31 December 2017 AED '000
Investee										
Associates										
Al Fayafi Al Khadra Company LLC	40%	40%	Abu Dhabi	800	-	-	-	-	(800)	-
Abu Dhabi Finance PJSC	32%	32%	Abu Dhabi	144,536	5,762	-	(3,364)	-	-	146,934
Al Sdeirah Real Estate Investment LLC	30%	30%	Abu Dhabi	63,604	(8,873)	-	-	-	-	54,731
Dimarco Electronic Systems LLC	34%	34%	Abu Dhabi	-	-	-	-	-	-	-
Bunya LLC	33%	33%	Abu Dhabi	-	-	-	-	-	-	-
Iskandar Holdings Limited	19%	19%	Cayman Islands	6,861	-	-	(775)	-	-	6,086
				215,801	(3,111)	-	(4,139)	-	(800)	207,751
Joint ventures										
Aldar Besix LLC	51%	50%	Abu Dhabi	16,165	73	-	-	-	-	16,238
Al Raha International Integrated Facilities Management LLC	50%	50%	Abu Dhabi	23,232	5,335	-	(7,500)	-	-	21,067
Aldar Etihad Investment Properties LLC	50%	50%	Abu Dhabi	494,494	46,265	3,295	(12,750)	-	-	531,304
Aldar Etihad First Investment Properties LLC	50%	50%	Abu Dhabi	95,179	4,050	-	(18,250)	-	-	80,979
Aldar Etihad Development LLC	50%	50%	Abu Dhabi	118,053	940	-	(18,750)	-	-	100,243
Royal House LLC	50%	50%	Abu Dhabi	-	(10,573)	-	-	10,573	-	-
S&T District Cooling Co. LLC	50%	50%	Abu Dhabi	49	-	-	-	-	-	49
Galaxy Building Materials	45%	50%	Abu Dhabi	1,435	(1,435)	-	-	-	-	-
				748,607	44,655	3,295	(57,250)	10,573	-	749,880
				964,408	41,544	3,295	(61,389)	10,573	(800)	957,631

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

8 INVESTMENT IN ASSOCIATES AND JOINT VENTURES continued

Latest available financial information in respect of the Group's associates is summarised below:

	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
Total assets	2,138,509	1,718,205
Total liabilities	(1,486,867)	(1,256,161)
Net assets	<u>651,642</u>	<u>462,044</u>
Group's share of net assets of associates	<u>207,751</u>	<u>215,801</u>
Total revenue	<u>104,821</u>	<u>70,570</u>
Total profit for the year	<u>11,400</u>	<u>24,031</u>

Latest available financial information in respect of the Group's joint ventures is summarised below:

	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
Total assets	2,511,631	2,950,959
Total liabilities	(1,567,800)	(1,708,190)
Net assets	<u>943,831</u>	<u>1,242,769</u>
Group's share of net assets of joint ventures	<u>749,880</u>	<u>748,607</u>
Total revenue	<u>362,095</u>	<u>338,897</u>
Total profit for the year	<u>91,838</u>	<u>121,456</u>

9 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
Investment in UAE quoted securities	28,000	29,580
Investment in UAE unquoted securities	35,201	35,201
Investment in international unquoted securities	<u>56,188</u>	<u>61,667</u>
	<u>119,389</u>	<u>126,448</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

9 AVAILABLE-FOR-SALE FINANCIAL ASSETS continued

Movement during the year is as follows:

	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
Balance at the beginning of the year	126,448	122,973
Additions	-	1,068
Gain on revaluation during the year	5,913	8,888
Repayment of capital	<u>(12,972)</u>	<u>(6,481)</u>
Balance at the end of the year	<u>119,389</u>	<u>126,448</u>

During the year, dividend income received from these investments amounted to AED 5.1 million (31 December 2016: AED 1.2 million).

10 TRADE AND OTHER RECEIVABLES

	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
Non-current portion		
Receivables relating to project finance (Note 10.3)	143,946	150,581
Receivables from the Government of Abu Dhabi (Note 10.4)	190,000	474,999
Due from associates and joint ventures (Note 10.5)	82,571	89,114
Other	<u>10,694</u>	<u>12,280</u>
	<u>427,211</u>	<u>726,974</u>
Current portion		
Trade receivables (Note 10.1)	1,723,551	1,414,592
Less: provision for impairment and cancellations	<u>(302,466)</u>	<u>(327,556)</u>
	1,421,085	1,087,036
Refundable costs (Note 10.2)	505,402	301,395
Receivables relating to project finance (Note 10.3)	19,932	17,401
Receivables from the Government of Abu Dhabi (Note 10.4)	439,995	815,039
Due from associates and joint ventures (Note 10.5)	274,405	236,485
Gross amounts due from customers on contracts for sale of properties (Note 10.6)	748,197	152,194
Gross amounts due from customers on contracts to construct an asset (Note 10.7)	112,459	129,885
Advances and prepayments	979,776	1,428,960
Accrued interest	66,355	37,493
Other	<u>357,843</u>	<u>330,497</u>
	<u>4,925,449</u>	<u>4,536,385</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

10 TRADE AND OTHER RECEIVABLES continued**10.1 Trade receivables**

Trade receivables mainly represent the amounts due in respect of sales of plots of land, properties and revenue from construction contracts. As at 31 December 2017, 18% of the trade receivables (2016: 28% of the trade receivables) are due from its top five customers. Concentration of credit risk is mitigated by the fact that the customers have already made instalment payments, in some cases substantial, on the plots, which the Group would contractually be entitled to retain in the event of non-completion of the remaining contractual obligations in order to cover losses incurred by the Group.

Interest is charged at 12% per annum on the past due amounts in respect of sales of plots and properties.

	<i>2017</i>	<i>2016</i>
	<i>AED'000</i>	<i>AED'000</i>
<i>Ageing of trade receivables</i>		
Not past due	853,974	490,055
Past due but not impaired (more than 180 days)	567,111	596,981
Past due and impaired (more than 180 days)	<u>302,466</u>	<u>327,556</u>
Total trade receivables	<u>1,723,551</u>	<u>1,414,592</u>

Movement during the year in provision for impairment and cancellations in trade receivables is as follows:

	<i>2017</i>	<i>2016</i>
	<i>AED'000</i>	<i>AED'000</i>
Balance at the beginning of the year	327,556	537,826
Reversal of provision for impairment during the year (Note 25)	(9,544)	(26,280)
Provision for impairment released upon settlement	<u>(15,546)</u>	<u>(183,990)</u>
Balance at the end of the year	<u>302,466</u>	<u>327,556</u>

10.2 Refundable costs

Refundable costs represent costs incurred on behalf of the Government of Abu Dhabi in relation to development of infrastructure of various projects and real estate developments. These amounts will be refunded by the relevant Government Authorities upon completion.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

10 TRADE AND OTHER RECEIVABLES continued**10.3 Receivables relating to project finance**

	<i>Minimum payments</i>		<i>Present value of minimum payments</i>	
	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
Current receivables				
Within one year	<u>28,915</u>	<u>24,390</u>	<u>19,932</u>	<u>17,401</u>
Non-current receivables				
In the second to fifth year	71,490	76,068	40,305	45,805
After five years	<u>243,854</u>	<u>261,759</u>	<u>103,641</u>	<u>104,776</u>
	<u>315,344</u>	<u>337,827</u>	<u>143,946</u>	<u>150,581</u>
Amounts receivable from project finance	344,259	362,217	163,878	167,982
Less: unearned finance income	<u>(180,381)</u>	<u>(194,235)</u>	<u>-</u>	<u>-</u>
Present value of minimum payments receivable	<u>163,878</u>	<u>167,982</u>	<u>163,878</u>	<u>167,982</u>

10.4 Receivable from the Government of Abu Dhabi

Receivables from the Government of Abu Dhabi represent the amounts receivable against assets sold and land plots handed over.

10.5 Due from associates and joint ventures

	<i>Non-current</i>		<i>Current</i>	
	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
Gross receivables	172,722	171,712	290,536	287,615
Less: provision for impairment	<u>(90,151)</u>	<u>(82,598)</u>	<u>(16,131)</u>	<u>(51,130)</u>
	<u>82,571</u>	<u>89,114</u>	<u>274,405</u>	<u>236,485</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

10 TRADE AND OTHER RECEIVABLES continued

10.6 Gross amounts due from/ (due to) customers on contracts for sale of properties

	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
Amount due from customers included in trade and other receivables (Note 10)	748,197	152,194
Amount due to customers included in trade and other payables (Note 20)	<u>(221,497)</u>	<u>(556,489)</u>
	<u>526,700</u>	<u>(404,295)</u>
Total contracts cost incurred plus recognised profits less recognised losses to date	3,335,293	1,474,393
Less: total progress billings to date	<u>(2,808,593)</u>	<u>(1,878,688)</u>
	<u>526,700</u>	<u>(404,295)</u>

The above amount represents unbilled/ (deferred) revenue arising from sale of land and units. With respect to the above contracts, revenue aggregating to AED 3,771.6 million is expected to be recognised over the term of these contracts.

10.7 Gross amounts due from/ (due to) customers on construction contracts

	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
Amount due from customers included in trade and other receivables (Note 10)	112,459	129,885
Amount due to customers included in trade and other payables (Note 20)	<u>(92,611)</u>	<u>(70,238)</u>
	<u>19,848</u>	<u>59,647</u>
Total contracts cost incurred plus recognised profits less recognised losses to date	5,989,379	5,673,578
Less: total progress billings to date	<u>(5,969,531)</u>	<u>(5,613,931)</u>
	<u>19,848</u>	<u>59,647</u>

The above amount represents unbilled revenue arising from construction contracts. With respect to the above contracts, revenue aggregating to AED 1,302.4 million is expected to be recognised over the period of these contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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11 DEVELOPMENT WORK IN PROGRESS

Development work in progress represents development and construction costs incurred on properties being constructed for sale. Movement during the year is as follows:

	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
Balance at beginning of the year	1,298,384	2,744,976
Development costs incurred during the year	1,345,537	608,220
Recognised in costs of properties sold	(1,144,971)	(856,141)
Transfers from land held for sale	107,042	-
Transfers to inventories (Note 12)	(112,600)	-
Transfers to investment properties (Note 7)	(6,360)	-
Transfer to property, plant and equipment (Note 5)	(8,150)	(11,301)
Impairments / write-offs of project costs (Note 25)	(2,064)	-
Transfers from advances (Note 20)	-	(1,187,370)
Balance at the end of the year	<u>1,476,818</u>	<u>1,298,384</u>

All development work in progress projects are located in the United Arab Emirates.

12 INVENTORIES

	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
Completed properties	228,681	163,415
Other operating inventories	<u>57,920</u>	<u>57,230</u>
	<u>286,601</u>	<u>220,645</u>

During the year, properties with an aggregate value of AED 112.6 million were transferred to inventories upon completion (Note 11).

Completed properties in inventories are located in the United Arab Emirates.

13 CASH AND CASH EQUIVALENTS

	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
Cash and bank balances	2,452,164	2,046,292
Short term deposits held with banks	<u>4,433,322</u>	<u>4,650,048</u>
Cash and bank balances	6,885,486	6,696,340
Short term deposits with original maturities greater than three months	(3,286,578)	(3,215,160)
Restricted bank balances	<u>(2,682,001)</u>	<u>(1,969,647)</u>
Cash and cash equivalents	<u>916,907</u>	<u>1,511,533</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

13 CASH AND CASH EQUIVALENTS continued

During the year, the Group held amounts related to one of its associates in addition to community service charges and security deposits on behalf of the owners of units in certain buildings or communities that are managed by the Group. As at 31 December 2017, cash at banks amounting to AED 589.2 million (2016: AED 384 million) are not included in the Group's bank balances as it is held by the Group on behalf of third parties. Restricted cash and bank include balances amounting to AED 1,167.7 million which are deposited into escrow accounts representing cash received from customers against sale of development properties. The remaining balance of restricted cash balances mainly represents cash balances held against government projects and dividend payables for which separate bank accounts are maintained.

The interest rate on term deposits ranges between 0.4% and 2.70% (2016: 0.75 % and 2.40%) per annum. All fixed deposits are placed with local banks in the United Arab Emirates.

14 SHARE CAPITAL

Share capital comprises 7,862,629,603 (2016: 7,862,629,603) authorised, issued and fully paid up ordinary shares with a par value of AED 1 each.

15 STATUTORY RESERVE

In accordance with its Articles of Association and the UAE Federal Law No. (2) of 2015, 10% of the profit of the Company is transferred to a statutory reserve that is non-distributable. Transfers to this reserve may be suspended whenever the reserve reaches 50% of the paid up share capital of the Company.

16 NON-CONVERTIBLE SUKUK

	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
Proceeds from issue	<u>2,755,125</u>	<u>2,755,125</u>
Gross issue costs	<u>(18,580)</u>	<u>(18,239)</u>
Less: amortisation of issue costs	<u>16,042</u>	<u>12,303</u>
Unamortised issue costs	<u>(2,538)</u>	<u>(5,936)</u>
Add: Accrued profit	<u>9,983</u>	<u>9,983</u>
Carrying amount	<u>2,762,570</u>	2,759,172
Less: current portion	<u>(2,762,570)</u>	<u>(9,983)</u>
Non-current portion	<u>-</u>	<u>2,749,189</u>
Total finance cost capitalised during the year	<u>110</u>	<u>1,136</u>

In December 2013, the Group issued non-convertible Sukuk (Ijarah) for a total value of AED 2.75 billion (USD 750 million). The Sukuk has a profit rate of 4.348% per annum payable semi-annually and is due for repayment in December 2018.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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17 BANK BORROWINGS

	<i>Outstanding amount</i>			<i>Security</i>	<i>Interest rate</i>	<i>Maturity</i>	<i>Purpose</i>	<i>Capitalised interest AED'000</i>
	<i>Current AED'000</i>	<i>Non-current AED'000</i>	<i>Total AED'000</i>					
31 December 2017								
Term loan	-	600,000	600,000	Secured	relevant EIBOR + 1.30%	July 2019	Refinancing of debt	25
Term loan	-	280,000	280,000	Secured	relevant EIBOR + 1.30%	July 2019	Refinancing of debt	11
Term loan	-	160,000	160,000	Secured	relevant EIBOR + 1.40%	June 2019	Refinancing of debt	6
Term loan	807,389	-	807,389	Secured	3 months LIBOR + 1.40%	November 2018	General corporate purpose	35
Ijarah facility	-	280,000	280,000	Secured	relevant EIBOR + 1.40%	July 2019	General corporate purpose	11
Term l	-	5,000	5,000	Secured	EIBOR + 1.80%	August 2023	General corporate purpose	-
Lease facility	-	80,000	80,000	Secured	relevant EIBOR + 1.40%	December 2019	General corporate purpose	3
Term loan	-	-	-	Secured	3 months EIBOR + 1%	December 2017	General corporate purpose	12
Term loan	-	500,000	500,000	Secured	relevant EIBOR + 1.25%	August 2021	General corporate purpose	-
Term loan	-	500,000	500,000	Secured	relevant EIBOR + 1.30%	August 2023	General corporate purpose	-
Unamortised borrowing cost	-	(28,725)	(28,725)					-
Accrual for interests and profits	9,784	-	9,784					-
	<u>817,173</u>	<u>2,376,275</u>	<u>3,193,448</u>					<u>103</u>
31 December 2016								
Government loan	163,009	-	163,009	Unsecured	1 year USD LIBOR + 0.35%	December 2017	Development of Yas Island	-
Term loan	-	280,000	280,000	Secured	relevant EIBOR + 1.30%	July 2019	Refinancing of debt	115
Term loan	-	600,000	600,000	Secured	relevant EIBOR + 1.325%	July 2019	Refinancing of debt	246
Term loan	-	160,000	160,000	Secured	relevant EIBOR + 1.40%	June 2019	Refinancing of debt	66
Term loan	152,083	807,389	959,472	Secured	3 months LIBOR + 1.40%	November 2018	General corporate purpose	394
Ijarah facility	-	280,000	280,000	Secured	relevant EIBOR + 1.40%	July 2019	General corporate purpose	115
Term l	-	5,000	5,000	Secured	EIBOR + 1.80%	August 2023	General corporate purpose	-
Lease facility	-	80,000	80,000	Secured	relevant EIBOR + 1.40%	December 2019	General corporate purpose	33
Term loan	312,500	-	312,500	Secured	3 months EIBOR + 1%	December 2017	General corporate purpose	257
Unamortised borrowing cost	-	(43,597)	(43,597)					-
Accrual for interests and profits	8,676	-	8,676					-
	<u>636,268</u>	<u>2,168,792</u>	<u>2,805,060</u>					<u>1,226</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

17 BANK BORROWINGS continued

The borrowings are repayable as follows:

	2017 <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
Current	817,173	636,268
Non-current	<u>2,376,275</u>	<u>2,168,792</u>
	<u>3,193,448</u>	<u>2,805,060</u>

In November 2013, the Group signed a term loan facility for AED 1.25 billion repayable in four equal installments commencing 15 December 2014. This loan was secured by assignment of Government receivables and the balance has been fully repaid on 17 December 2017.

In November 2013, the Group signed a term loan facility for USD 750 million (AED 2.75 billion) of which USD 375 million (Facility A) was prepaid in 2015, and the remaining USD 375 million (Facility B) is repayable in quarterly installments until November 2018. The balance as of 31 December 2017 was USD 219.787 million (AED 807.389 million).

In July 2014, the Group signed a number of bilateral facilities with banks for AED 3.2 billion. The facilities comprised of AED 1.8 billion of committed revolving credit facilities for a tenor of 3 years and AED 1.4 billion of term loans with a maturity of 5 years. In December 2015, the Group had renegotiated the terms of the revolving credit facilities increasing the facility amounts from AED 1.8 billion to AED 2.0 billion and extending the maturity until 31 March 2021 with an option to extend the maturity for a further 2 years. As at 31 December 2017, these facilities remained committed and undrawn.

In August 2016, the Group signed three new bilateral facilities with banks for AED 1.8 billion to refinance its existing loans due to mature out to end of 2018. The new facilities comprised of: AED 400 million for a tenor of 10 years, AED 900 million for a tenor of 7 years and AED 500 million for a tenor of 5 years. These facilities are secured and have bullet maturities. As at 31 December 2017, AED 1.05 billion was drawn and the balance remained committed and undrawn.

Loan securities are in the form of mortgages over plots of land and operating assets and in the case of one facility, assignment of project receivables. Certain Group's borrowings carry a net worth covenant.

Borrowings repaid during the year amounted to AED 627.59 million (2016: AED 394 million).

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18 PROVISION FOR EMPLOYEES' END OF SERVICE BENEFIT

Movement in the provision for employees' end of service benefit is as follows:

	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
Balance at the beginning of the year	128,137	115,875
Charge for the year (Note 24)	26,420	20,511
Paid during the year	<u>(12,794)</u>	<u>(8,249)</u>
Balance at the end of the year	<u>141,763</u>	<u>128,137</u>

19 OTHER FINANCIAL LIABILITIES

The Company has entered into interest rate swap contracts to hedge its exposure to future cash flows due to interest rate fluctuations. As at 31 December 2017, the notional amount of these derivatives amounted to AED 2,867,272 thousand (USD 780,635 thousand) with a positive change in fair value (net) of AED 2,112 thousand (USD 575 thousand) recorded in the statement of comprehensive income.

20 TRADE AND OTHER PAYABLES

	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
Trade payables	524,062	465,869
Accrual for contractors' costs	1,651,530	1,725,527
Advances from the Government of Abu Dhabi (Note 11 and 31) (i)	956,848	1,829,262
Deferred income	347,528	432,158
Dividends payable	102,803	104,057
Provision for onerous contracts	28,569	67,298
Gross amount due to customers on contracts for sale of properties (Note 10.6)	221,497	556,489
Gross amount due to customers on contracts to construct an asset (Note 10.7)	92,611	70,238
Due to the Government of Abu Dhabi (Note 31)	937,199	502,335
Operating lease liability	559,025	488,333
Other liabilities	<u>534,627</u>	<u>538,586</u>
	<u>5,956,299</u>	<u>6,780,152</u>

The Group has financial and risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

(i) Advances that represent amounts received for the development of infrastructure on a certain master planned community development have been offset with development work in progress based on the conclusion of a similar transaction.

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21 REVENUE

	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
Property development and management	2,277,888	2,506,846
Asset management and adjacencies	<u>3,902,788</u>	<u>3,730,650</u>
	<u>6,180,676</u>	<u>6,237,496</u>

22 DIRECT COSTS

	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
Property development and management	1,183,242	1,344,815
Asset management and adjacencies	<u>2,341,929</u>	<u>2,253,428</u>
	<u>3,525,171</u>	<u>3,598,243</u>

23 SELLING AND MARKETING EXPENSES

	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
Corporate advertising	27,033	22,594
Exhibitions and sponsorships	13,418	6,578
Project marketing	<u>34,527</u>	<u>32,246</u>
	<u>74,978</u>	<u>61,418</u>

24 STAFF COSTS

	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
Salaries, bonuses and other benefits	746,625	743,896
Employees' end of service benefits (Note 18)	26,420	20,511
Staff training and development	<u>2,108</u>	<u>4,230</u>
	<u>775,153</u>	<u>768,637</u>
Staff costs allocated to:		
Direct costs	523,857	507,127
General and administrative expenses	227,767	233,329
Projects under development	<u>23,529</u>	<u>28,181</u>
	<u>775,153</u>	<u>768,637</u>

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25 REVERSAL/ (PROVISIONS, IMPAIRMENTS AND WRITE DOWNS), NET

	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
Reversal/ (provision) for impairment of property, plant and equipment, net (Note 5)	1,341	(33,583)
Reversal of provision of impairment of trade receivables (Note 10.1)	9,544	26,280
Write-off of development work in progress (Note 11)	(2,064)	-
Others	<u>-</u>	<u>(20,319)</u>
	<u>8,821</u>	<u>(27,622)</u>

26 FINANCE INCOME

	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
Interest / profit earned on:		
Islamic deposits	40,542	34,963
Bank fixed deposits	36,650	44,900
Call and current accounts	<u>6,853</u>	<u>729</u>
Total interest / profit earned	84,045	80,592
Financing element earned on receivables, net	17,847	16,081
Financing income earned on		
receivables from project finance	13,373	13,832
Other finance income	<u>9,377</u>	<u>9,467</u>
	<u>124,642</u>	<u>119,972</u>

Finance income earned on financial assets, analysed by category of asset is as follows:

	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
Loans and receivables	40,597	39,380
Bank balances and deposits	<u>84,045</u>	<u>80,592</u>
	<u>124,642</u>	<u>119,972</u>

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27 FINANCE COSTS

	2017 AED '000	2016 AED '000
Gross costs	228,222	217,562
Unwinding of finance cost on operating lease liability (Note 32.2)	22,292	19,217
Less: amounts included in the cost of qualifying assets (i) (Notes 7 and 5)	<u>(213)</u>	<u>(2,362)</u>
	250,301	234,417
Recycling of hedging reserve loss	<u>3,952</u>	<u>6,772</u>
	<u><u>254,253</u></u>	<u><u>241,189</u></u>

(i) The weighted average capitalisation rate of funds borrowed is 3.6 % (2016: 3.5%) per annum.

28 OTHER INCOME

	2017 AED '000	2016 AED '000
Government grant income recorded upon handover of infrastructure assets (Note 31.1)	390,745	715,825
Write back on receivables and cancellation of land plots, net	41,996	44,426
Recovery of amounts previously charged to consolidated income statement	73,871	135,834
Release of infrastructure accruals, onerous provision and other accruals	73,130	56,821
Others	<u>52,470</u>	<u>1,374</u>
	<u><u>632,212</u></u>	<u><u>954,280</u></u>

29 EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

The calculation of basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2017	2016
Earnings (AED '000)		
Earnings for the purpose of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	<u>1,995,505</u>	<u>2,782,364</u>
Weighted average number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	<u>7,862,629,603</u>	<u>7,862,629,603</u>
Basic and diluted earnings per share attributable to owners of the Company in AED	<u>0.254</u>	<u>0.354</u>

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30 DIVIDENDS

At the annual general assembly held on 20 March 2017, the shareholders approved the recommendation of the Board of Directors to distribute dividends of AED 11 fils per share for a total of AED 865 million. The Board of Directors propose a cash dividend of AED 12 fils per share for the year ended 31 December 2017. The proposed dividend is subject to the approval of the Shareholders at the annual general assembly.

31 TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Related parties comprise of major shareholder, associated companies, directors, key management personnel of the Group and their related entities. The terms of these transactions are approved by the Group's management and are made on terms agreed by the Board of Directors or management. Government of Abu Dhabi is an indirect major shareholder of the Company.

Related party balances:

	<i>2017</i>	<i>2016</i>
	<i>AED'000</i>	<i>AED'000</i>
Due from / (to) Government:		
Refundable costs (Note 10.2)	505,402	301,395
Receivable from assets sold (Note 10)	475,000	1,290,038
Receivables against infrastructure handovers (Note 10)	154,995	-
Other payables (Note 20)	(937,199)	(502,335)
Other receivables	<u>42,916</u>	<u>57,454</u>
	<u>241,114</u>	<u>1,146,552</u>
Advances received (Note 20)	<u>956,848</u>	<u>1,829,262</u>
Due from associates and joint ventures (Note 10.5)	<u>356,976</u>	<u>325,599</u>
Due to joint ventures for project-related work:		
Contract payables	<u>32,692</u>	<u>32,692</u>
Certain receivables from joint ventures carry interest of 9% per annum and are repayable within 2 to 5 years.		
	<i>2017</i>	<i>2016</i>
	<i>AED'000</i>	<i>AED'000</i>
Due from major shareholder owned by Government and / or its associated companies:		
Receivable from project finance (Note 10.3)	<u>133,779</u>	<u>138,649</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

31 TRANSACTIONS AND BALANCES WITH RELATED PARTIES continued

Significant transactions with related parties during the year are as follows:

	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
Key management compensation:		
Salaries, bonuses and other benefits	15,275	15,015
Post-employment benefits	<u>590</u>	<u>693</u>
	<u>15,865</u>	<u>15,708</u>
Directors remuneration paid	<u>23,000</u>	<u>29,183</u>
Income from Government and major shareholder owned by Government:		
Revenue from sale of land and properties	42,000	812,825
Project management income	118,949	119,377
Rental income	354,604	363,507
Government grant income (Note 28)	<u>390,745</u>	<u>715,825</u>
	<u>906,298</u>	<u>2,011,534</u>
Finance income from project finance and joint ventures	<u>19,740</u>	<u>20,243</u>

- 31.1** The amount and timing of the infrastructure cost reimbursement is subject to the completion of certain audit and technical inspections and assessments to be performed by the relevant government authority. Once these activities are completed, there will be reasonable assurance that the grant will be received and at that point it will be recognised as a deferred government grant. Once the conditions of the grant are met, i.e. infrastructure assets are handed over to the designated authorities, the deferred government grant will be recognised in profit or loss. During the year, an amount of AED 390.7 million was recognised as government grant income upon handover of infrastructure assets (31 December 2016: AED 715.8 million).
- 31.2** Outstanding borrowings of AED 1,941.6 million (31 December 2016: AED 1,600.7 million) are due to the Government and banks controlled by the Government. Finance cost on these borrowings amounted to AED 81.4 million (2016: AED 57.6 million).
- 31.3** Outstanding deposits of AED 1,768.37 million (31 December 2016: AED 2,594.0 million) are kept with banks controlled by the Government. Finance income on these deposits amounted to AED 43.55 million (2016: AED 50.9 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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32 COMMITMENTS AND CONTINGENCIES**32.1 Capital commitments**

Capital expenditure contracted but not yet incurred at the end of the year is as follows:

	2017	2016
	AED'000	AED'000
Projects under development	3,468,891	1,731,035
Reimbursable project works in progress	2,722,701	4,489,301
Investment in associates	<u>30,342</u>	<u>30,342</u>
	<u>6,221,934</u>	<u>6,250,678</u>

The above commitments are spread over a period of one to five years.

The Group has outstanding advances to the suppliers and contractors amounting to AED 784.4 million (2016: AED 1,198 million) against the above commitments.

32.2 Operating lease commitments

The Company has leased out certain properties. The amounts of committed future lease inflows are as follows:

The Company as lessor

	2017	2016
	AED'000	AED'000
Buildings:		
Within one year	900,147	825,892
In the second to fifth year	1,671,228	1,794,525
After five years	<u>598,172</u>	<u>948,387</u>
	<u>3,169,547</u>	<u>3,568,804</u>

Following the Company election to adopt IFRS-16, the resulting impact on the consolidated income statement and consolidated statement of cash flows is as follows:

The Company as a lessee

	2017	2016
	AED'000	AED'000
Unwinding of interest expense during the period on lease liabilities (note 27)	<u>22,292</u>	<u>19,217</u>
Expense relating to short-term leases	<u>28,115</u>	<u>27,921</u>
Total cash outflow in respect of leases	<u>25,468</u>	<u>20,704</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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32 COMMITMENTS AND CONTINGENCIES continued**32.3 Contingencies***Letters of credit and bank guarantees*

	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
<i>Letters of credit and bank guarantees:</i>		
Issued by the Group	<u>784,166</u>	<u>698,084</u>
Group's share in contingencies of joint ventures and associates	<u>165,765</u>	<u>221,690</u>

Included in the above are bank guarantees and letters of credit amount of AED 720.0 million (2016: AED 619.2 million) pertaining to a construction related subsidiary.

33 FINANCIAL INSTRUMENTS**33.1 Significant accounting policies**

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 3 to the consolidated financial statements.

33.2 Categories of financial instruments

	<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
Financial assets		
Available-for-sale financial assets	119,389	126,448
Loans and receivables (including cash and bank balances)	<u>11,258,371</u>	<u>10,530,739</u>
Total	<u>11,377,760</u>	<u>10,657,187</u>
Financial liabilities		
Financial liabilities measured at amortised cost	10,132,555	9,658,169
Derivative instruments	<u>16,263</u>	<u>15,081</u>
Total	<u>10,148,818</u>	<u>9,673,250</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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33 FINANCIAL INSTRUMENTS continued

33.3 Financial risk management

The Group's Corporate Finance and Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages financial risks based on internally developed models, benchmarks and forecasts. The Group seeks to minimise the effects of financial risks by using appropriate risk management techniques including using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by management's analysis of market trends, liquidity position and predicted movements in interest rate and foreign currency rates which are reviewed by the management on a continuous basis.

The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Group analyses financial risks under the following captions:

33.4 Capital risk management

Capital risk is the risk that the Group is not able to manage its capital structure to ensure that all entities in the Group will be able to continue as a going concern.

The capital structure comprises non-convertible Sukuk, borrowings, cash and bank balances and equity attributable to owners of the Company, comprising issued capital, share premium, reserves and accumulated losses as disclosed in the consolidated statement of changes in equity.

The Group monitors and adjusts its capital structure with a view to promote the long-term success of the business while maintaining sustainable returns for shareholders. This is achieved through a combination of risk management actions including monitoring solvency, minimising financing costs, rigorous investment appraisals and maintaining high standards of business conduct.

Key financial measures that are subject to regular review include cash flow projections and assessment of their ability to meet contracted commitments, projected gearing levels and compliance with borrowing covenants, although no absolute targets are set for these.

The Group monitors its cost of debt on a regular basis. At 31 December 2017, the weighted average cost of debt was 3.60% (2016: 3.51%). Investment and development opportunities are evaluated against an appropriate equity return in order to ensure that long-term shareholder value is created.

The covenants of nine (2016: nine) borrowing arrangements require the Group maintaining a minimum tangible net worth of AED 6.0 billion.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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33 FINANCIAL INSTRUMENTS continued**33.5 Market risk management**

Market risk is the risk that the fair value or future cash flows of a financial asset or liability will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign currency risk, interest rate risk and other price risk.

a) Foreign currency risk management

The Group has no significant cross-border trading transactions and therefore, foreign exchange transaction exposure is negligible. However, it does borrow money in foreign currencies primarily in US Dollars. The Group's currency exposure therefore is in relation to the repayment of loans and also the translation risk associated with converting outstanding loan balances back into UAE Dirhams in the Group consolidated financial statements at the end of each reporting period. The exchange rate between UAE Dirhams and US Dollars is fixed and therefore the Group considers foreign exchange risk associated with repayment of loans and translation as minimum.

Foreign currency sensitivity analysis

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the end of the reporting period are as follows:

	<i>Liabilities</i>		<i>Assets</i>	
	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
US Dollar	3,612,253	3,851,570	589,869	1,038,297
Saudi Riyal	4,072	1,095	10,392	13,412
Pound Sterling	<u>134</u>	<u>256</u>	-	-
	<u>3,616,459</u>	<u>3,852,921</u>	<u>600,261</u>	<u>1,051,709</u>

There is no significant impact on US Dollar as the UAE Dirham is pegged to the US Dollar. Also, the Saudi Riyal is pegged to the US Dollar.

b) Interest rate risk management

The Company is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate swap contracts.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in notes 13, 16, and 17.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate assets and liabilities, the analysis is prepared assuming the amount of asset or liability outstanding at the end of the reporting period was outstanding for the whole year.

If interest rates had been 100 basis points higher / lower and all other variables were held constant, the Group's profit for the year ended 31 December 2017 would increase / decrease by AED 11.1 million/ AED 10.2 million (2016: increase/decrease by AED 15.5 million / AED 16.6 million). The Company's sensitivity to interest rates has decreased due to significant loan repayments during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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33 FINANCIAL INSTRUMENTS continued

33.5 Market risk management continued

b) Interest rate risk management continued

Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rate on the fair value of issued fixed rate debt and the cash flow exposures on the issued variable rate debt.

Cash flow hedges

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the payments on the loan occur simultaneously.

The Group's derivative financial instruments were contracted with counterparties operating in the United Arab Emirates.

33.6 Credit risk management

Credit risk in relation to the Group, refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Group.

Key areas where the Group is exposed to credit risk are trade and other receivables and bank and cash balances and derivative financial assets (liquid assets).

The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific non-related counterparties, and continually assessing the creditworthiness of such non-related counterparties.

Concentration of credit risk

Concentration of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar 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 credit risk indicates the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. Details on concentration of trade receivable balances are disclosed in note 10. Management believes that the concentration of credit risk is mitigated by having received instalment payments, in some cases substantial, which the Group would contractually be entitled to retain in the event of non-completion of the remaining contractual obligations in order to cover the losses incurred by the Group.

At 31 December 2017, 100% (2016: 100%) of the deposits were placed with 6 banks. Balances with banks are assessed to have low credit risk of default since these banks are among the major banks operating in the UAE and are regulated by the central bank.

The amount that best represents maximum credit risk exposure on financial assets at the end of the reporting period, in the event counter parties fail to perform their obligations generally approximates their carrying value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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33 FINANCIAL INSTRUMENTS continued

33.7 Liquidity risk management

The responsibility for liquidity risk management rests with the management of the Group, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and committed borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The table below summarises the maturity profile of the Group's financial assets and liabilities at 31 December 2017 and 2016 based on contractual maturities.

	<i>Effective interest rate</i>	<i>< 1 month AED'000</i>	<i>1 to 3 months AED'000</i>	<i>3 months to 1 year AED'000</i>	<i>1 to 5 years AED'000</i>	<i>> 5 years AED'000</i>	<i>Total AED'000</i>
31 December 2017							
Financial assets							
Non-interest bearing instruments		95,000	853,974	3,039,442	325,563	82,571	4,396,550
Receivables from project finance	6-9%	-	5,125	23,790	71,490	243,854	344,259
Variable interest rate instruments		<u>2,452,164</u>	<u>158,035</u>	<u>4,341,643</u>	<u>-</u>	<u>-</u>	<u>6,951,842</u>
Total		<u>2,547,164</u>	<u>1,017,134</u>	<u>7,404,875</u>	<u>397,053</u>	<u>326,425</u>	<u>11,692,651</u>
Financial liabilities							
Non-interest bearing instruments ⁽¹⁾		227,158	2,288,428	859,727	242,199	-	3,617,512
Non-convertible sukuk		-	-	2,755,125	-	-	2,755,125
Variable interest rate instruments		-	38,021	769,369	1,400,000	1,005,000	3,212,390
Operating lease liability		-	21,326	29,725	181,268	326,706	559,025
Derivative instruments		-	<u>5,748</u>	<u>10,515</u>	<u>-</u>	<u>-</u>	<u>16,263</u>
Total		<u>227,158</u>	<u>2,353,523</u>	<u>4,424,461</u>	<u>1,823,467</u>	<u>1,331,706</u>	<u>10,160,315</u>
31 December 2016							
Financial assets							
Non-interest bearing instruments		-	490,055	2,570,262	613,728	89,114	3,763,159
Receivables from project finance	6-9%	-	5,125	19,265	76,068	261,759	362,217
Variable interest rate instruments		<u>2,096,292</u>	<u>1,380,784</u>	<u>3,256,757</u>	<u>-</u>	<u>-</u>	<u>6,733,833</u>
Total		<u>2,096,292</u>	<u>1,875,964</u>	<u>5,846,284</u>	<u>689,796</u>	<u>350,873</u>	<u>10,859,209</u>
Financial liabilities							
Non-interest bearing instruments ⁽¹⁾		77,960	2,396,546	1,037,013	94,083	-	3,605,602
Non-convertible sukuk		-	-	9,983	2,755,125	-	2,765,108
Variable interest rate instruments		5,051	41,646	589,572	2,207,389	5,000	2,848,658
Operating lease liability		-	10,749	25,678	198,473	253,433	488,333
Derivative instruments		-	-	<u>15,081</u>	<u>-</u>	<u>-</u>	<u>15,081</u>
Total		<u>83,011</u>	<u>2,448,941</u>	<u>1,677,327</u>	<u>5,255,070</u>	<u>258,433</u>	<u>9,722,782</u>

⁽¹⁾ Including security deposits from customers.

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34 FAIR VALUE OF FINANCIAL INSTRUMENTS

Except as disclosed in the following table, management considers that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the consolidated financial statements approximate their fair values.

	<i>As at 31 December 2017</i>		<i>As at 31 December 2016</i>	
	<i>Gross carrying amount</i>	<i>Fair value</i>	<i>Gross carrying amount</i>	<i>Fair value</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
Financial liabilities at amortised cost				
Non convertible sukuk (Note 16)	<u>2,762,570</u>	<u>2,800,722</u>	<u>2,759,172</u>	<u>2,842,380</u>

Following the amendment to IFRS 7, all financial instruments that are required to be measured at fair value (subsequent to initial recognition) should be disclosed in a fair value hierarchy or grouping into 3 levels (Levels 1 to 3) based on the degree to which the fair value is observable.

Level 1 fair value is derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 fair value measurements are derived from inputs other than quoted prices, and Level 3 are those that are derived from valuation techniques using unobservable inputs.

As at 31 December 2017 and 31 December 2016, the Group's financial assets that are stated at fair value are grouped as follows:

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
31 December 2017				
<i>Available-for-sale investments</i>				
Equities	<u>28,000</u>	<u>91,389</u>	<u>-</u>	<u>119,389</u>
31 December 2016				
<i>Available-for-sale investments</i>				
Equities	<u>29,580</u>	<u>96,868</u>	<u>-</u>	<u>126,448</u>

The fair values of derivative instruments amounting to AED 16.3 million pertaining to interest rate swap are determined by independent valuers (see note 19 and 33.5) and are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates. The derivative instruments are categorised as level 2.

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31 December 2017

35 SEGMENT INFORMATION

35.1 Business segments

Segment information about the Group's continuing operations for the year ended 31 December 2017 is presented below:

	<i>Property development and management</i>		<i>Asset management</i>			<i>Group AED '000</i>
	<i>Property development and sales AED '000</i>	<i>Development management AED '000</i>	<i>Investment properties AED '000</i>	<i>Hospitality and leisure AED '000</i>	<i>Adjacencies AED '000</i>	
Revenue excluding service charges	2,127,655	150,232	1,581,670	506,133	1,673,706	6,039,396
Revenue from service charges	-	-	141,280	-	-	141,280
Gross revenue	2,127,655	150,232	1,722,950	506,133	1,673,706	6,180,676
Cost of revenue excluding service charge	(1,168,115)	(15,127)	(181,895)	(406,343)	(1,612,411)	(3,383,891)
Service charge expenses	-	-	(141,280)	-	-	(141,280)
Gross profit	959,540	135,105	1,399,775	99,790	61,295	2,655,505
Depreciation and amortisation	-	-	(6,556)	(115,796)	(48,533)	(170,885)
Reversal/ Provisions, impairments and write downs – net	95,310	-	(17,000)	(32,717)	(35,540)	10,053
Fair value loss on investment properties	-	-	(613,107)	-	-	(613,107)
Share of profit from associates and joint ventures, net	-	-	51,252	-	-	51,252
Gain on disposal of investment properties	-	-	3,835	-	-	3,835
Other income	506,116	-	58,410	18	5,145	569,689
Segment profit / (loss)	1,560,966	135,105	876,609	(48,705)	(17,633)	2,506,342
Share of loss from associates and joint ventures, net						(9,708)
Selling and marketing expenses						(74,978)
Provisions, impairments and write downs, net						(1,232)
General and administrative expenses						(332,310)
Depreciation and amortisation						(15,091)
Finance income						124,642
Finance costs						(254,253)
Other income						62,523
Profit for the year						2,005,935

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

35 SEGMENT INFORMATION continued

35.1 Business segments continued

Segment information about the Group's continuing operations for the year ended 31 December 2016 is presented below:

	<i>Property development and management</i>		<i>Asset management</i>			<i>Group AED '000</i>
	<i>Property development and sales AED '000</i>	<i>Development management AED '000</i>	<i>Investment properties AED '000</i>	<i>Hospitality and leisure AED '000</i>	<i>Adjacencies AED '000</i>	
Revenue excluding service charges	2,387,467	119,379	1,669,713	540,334	1,371,270	6,088,163
Revenue from service charges	-	-	149,333	-	-	149,333
Gross revenue	2,387,467	119,379	1,819,046	540,334	1,371,270	6,237,496
Cost of revenue excluding service charge	(1,327,289)	(17,526)	(248,009)	(431,018)	(1,425,068)	(3,448,910)
Service charge expenses	-	-	(149,333)	-	-	(149,333)
Gross profit	1,060,178	101,853	1,421,704	109,316	(53,798)	2,639,253
Depreciation and amortisation	-	-	(21,807)	(116,438)	(45,315)	(183,560)
Provisions, impairments and write downs – net	52,375	-	(20,359)	(33,583)	(5,735)	(7,302)
Fair value gain on investment properties	-	-	(169,680)	-	-	(169,680)
Share of profit from associates and joint ventures	-	-	61,333	-	-	61,333
Gain on disposal of investment properties	-	-	14,409	-	-	14,409
Other income	718,410	16,563	50,343	-	-	785,316
Segment profit/ (loss)	1,830,963	118,416	1,335,943	(40,705)	(104,848)	3,139,769
Share of profit from associates and joint ventures						5,303
Selling and marketing expenses						(61,418)
Provisions, impairments and write downs – net						(20,320)
General and administrative expenses						(343,185)
Depreciation and amortisation						(15,490)
Finance income						119,972
Finance costs						(241,189)
Other income						168,964
Profit for the year						2,752,406

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

35 SEGMENT INFORMATION continued

35.1 Business segments continued

The segment assets and liabilities and capital and project expenditure at 31 December 2017 and 31 December 2016 are as follows:

	<i>Property development and management</i>		<i>Asset management</i>			<i>Unallocated AED '000</i>	<i>Group AED '000</i>
	<i>Property development and sales AED '000</i>	<i>Development management AED '000</i>	<i>Investment properties AED '000</i>	<i>Hospitality and leisure AED '000</i>	<i>Adjacencies AED '000</i>		
As at 31 December 2017							
Assets	8,279,511	2,281,360	17,222,084	2,293,710	1,706,200	4,614,061	36,396,926
Liabilities	(1,555,201)	(2,355,518)	(2,188,271)	(148,239)	(1,156,854)	(5,757,678)	(13,161,761)
Capital expenditures	-	-	29,404	14,806	104,730	6,000	154,940
Project expenditures	1,342,289	-	284,953	-	3,248	-	1,630,490
As at 31 December 2016							
Assets	7,201,806	3,405,611	16,875,618	2,409,892	1,578,095	4,090,075	35,561,097
Liabilities	(1,874,422)	(3,164,341)	(1,527,865)	(144,422)	(667,457)	(6,096,496)	(13,475,003)
Capital expenditures	-	-	25,671	17,617	205,431	11,939	260,658
Project expenditures	606,488	-	96,182	-	1,733	-	704,403

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3.

Segment profit represents the profit earned by each segment without allocation of central administration, selling and marketing costs and directors' salaries, share of profits of associates and joint ventures, other gains and losses, finance income and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

35 SEGMENT INFORMATION continued

35.1 Business segments continued

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than interests in associates and joint ventures, available for sale assets and 'other financial assets'. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments; and
- all liabilities are allocated to reportable segments other than borrowings, convertible and non-convertible bonds and 'other financial liabilities'. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

35.2 Geographical segments

The Group operated only in one geographical segment, i.e., United Arab Emirates.

36 OTHER GENERAL AND ADMINISTRATIVE EXPENSES

Other general and administrative expenses include social contributions amounting to AED 40 million (2016: AED 48 million).

37 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 14th February 2018.